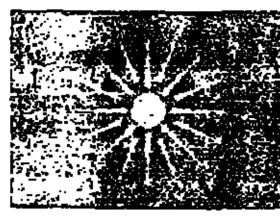
FINANCIAL TIMES



World Business Newspaper — THURSDAY FEBRUARY 2 1995 — D8523A

Floodwaters near peak as Dutch evacuate 255,000

Floodwaters are expected to peak today in eastern regions of the Netherlands, where a further 30,000 people yesterday joined the 225,000 already evacuated from threatened homes in low-lying areas. In Germany, where the danger has receded, flood damage was estimated to have reached DM1bn ($600m) while four people have died over the past week. Page 14; Dutch count cost, Page 2

Japan considers earthquake tax: The Japanese government is considering a tax increase to fund the rebuilding of Kobe, devastated by an earthquake last month. Page 14

Brittan to be Brussels vice-president: Sir Leon Brittan was elected as European Commission president Jacques Santer's deputy, one of two vice-presidents responsible for running the Commission in Mr Santer's absence. The other is Spanish commissioner Manuel Marin. Page 2

Dini government clears last hurdle: The government of the Italian prime minister, Mr Lamberto Dini, obtained an easy vote of confidence from the Italian senate, overcoming the final hurdle for the new administration to begin operations. Page 3

Macedonia hearing begins: The European Commission and the Greek government presented their arguments to the European Court of Justice in the case against Athens over its trade embargo on Macedonia. Page 3

Ford ends European losses:

Ford's European operations, excluding Jaguar, made a net profit of $388m last year, ending a three-year run of losses totalling over $1.5bn. With most European economies well into recovery, Mr Alex Trotman (left), chairman and chief executive, said that he "expected continued improvement" in Ford's performance in its European markets. Page 15; Lex, Page 14

East Asian population warning: The urban population of East Asian developing countries will jump to more than 1.2bn in the next 25 years from 500m at present, according to internal forecasts by World Bank economists. Page 4

France to push workers' rights: France is to press its EU partners to support a campaign in the World Trade Organisation and other inter-government bodies to link workers' rights and labour standards with international trade. Page 5

Ben & Jerry picks new chief: US ice-cream maker Ben & Jerry's Homemade picked former beverage company executive Robert Holland Jr as its president and chief executive officer after receiving more than 25,000 responses to its "I wanna be your CEO" write-in campaign. Observer, Page 13

German television break-up: German chancellor Helmut Kohl proposed breaking up the country's main federal television network following criticism of its Cologne-based operation. Page 2

Australian deficit soars: Australia's current account deficit soared to an all-time monthly record in December, reaching a seasonally adjusted A$2.386bn ($1.82bn). Page 4

Sea-trade volume at record level: The volume of world seaborne trade rose to a record 4.475bn tonnes in 1994. Page 5

Total overcomes difficult market: Total, the French oil and chemicals group, overcame depressed market conditions to raise net profits by 15 per cent to FFr3.4bn ($640m) last year. Page 15

HK companies seek satellite replacement: Two Hong Kong-based broadcasters have approached an Indonesian satellite telecommunications company, following the destruction last week of China's Apstar-2 satellite. Page 5

Crédit Lyonnais sells MGM stake: Crédit Lyonnais, the lossmaking state-controlled French bank, formally put up for sale the European MGM cinema network. Page 19

Reebok improves on record profit: Reebok, the US sports shoe manufacturer, beat its 1991 profits peak last year with net earnings of $254m, an underlying increase of 10 per cent on 1993. Page 18

Expansion costs hit AirTouch: Earnings at AirTouch, the California-based mobile telephone operator, were up in in its first full year as a public company. Profits, however, fell sharply in the final quarter due to the costs of expansion. Page 17

STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	3,861.02	(+17.16)
NASDAQ Composite	761.68	(+6.46)
Europe and Far East		
CAC40	1,827.78	(+29.88)
DAX	2,048.43	(+27.16)
FT-SE 100	3,017.3	(+25.7)
Nikkei	18,739.4	(+89.65)

US LUNCHTIME RATES

Federal Funds	6%
3-mth Treas Bills: Yld	5.978%
Long Bond	97$\frac{3}{32}$
Yield	7.689%

OTHER RATES

UK: 3-mo Interbank	6$\frac{11}{16}$%	(6$\frac{3}{4}$%)
UK: 10 yr Gilt	88$\frac{7}{32}$	(88$\frac{1}{32}$)
France: 10 yr OAT	95.97	(95.78)
Germany: 10 yr Bund	99.58	(99.52)
Japan: 10 yr JGB	96.305	(96.364)

NORTH SEA OIL (Argus)

Brent 15-day (Mar)	$16.77	(16.58)

GOLD

New York: Comex		
Feb	376.7	(375.4)
London:		
close	$376.2	(374.7)

DOLLAR

New York: lunchtime		
£	1.5835	
DM	1.52105	
FFr	5.2695	
SFr	1.2865	
Y	99.28	
London:		
£	1.5816	(1.5875)
DM	1.5228	(1.5153)
FFr	5.276	(5.2585)
SFr	1.2864	(1.276)
Y	99.46	(98.95)

STERLING

DM	2.4083	(2.4055)
Tokyo close:	Y 99.32	

Austria	Sch35	Greece	Dr400	Malta	Lm0.60	Qatar	QR13.00		
Bahrain	Din1.250	Hong Kong	HK$18	Morocco	MDh15	S.Arabia	SR11		
Belgium	BFr70	Hungary	Ft185	Neth	Fl 4.25	Singapore	S$4.30		
Bulgaria	Lv100.00	Iceland	IKr220	Nigeria	Naira60	Slovak Rp	KSL60		
Cyprus	C£1.10	India	Rs75	Norway	NKr18.00	S. Africa	R12.00		
Czech Rp	CZK55	Israel	Shk7.80	Oman	OR1.50	Spain	Pta225		
Denmark	DKr17	Italy	L3000	Pakistan	Rs40	Sweden	SKr17		
Egypt	E£5.00	Japan	Y600	Philippines	Peso50	Switz	SFr3.80		
Estonia	EKr 20	Jordan	JD1.50	Poland	Zl 42,000	Syria	S£50.00		
Finland	FM15	Kuwait	Fils625	Portugal (m'land)	Es230	Tunisia	Din1.500		
France	FFr10.50	Lebanon	US$1.50			Turkey	L40,000		
Germany	DM3.80	Lux	LFr70			UAE	Dh12.00		

Half-point rise aimed at keeping inflationary pressures under control

Fed lifts short-term rates to 6%

By Michael Prowse in Washington

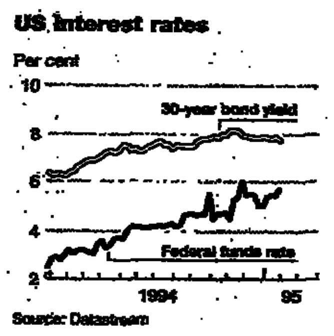
The US Federal Reserve moved yesterday to head off future inflationary pressures by signalling a half-point increase in short-term interest rates.

The Fed increased its target for the key federal funds rate – the cost of overnight money for banks – from 5.5 per cent to 6.0 per cent – and lifted the more symbolic discount rate from 4.75 per cent to 5.25 per cent.

The Fed said economic activity was continuing to rise at a "substantial pace, while resource utilisation has risen further". Action was thus necessary "to keep inflation constrained, and thereby foster sustainable economic growth". The move was widely expected in financial markets as economic growth of an annualised rate of 4.5 per cent at the end of last year was well above the rate seen as compatible with stable inflation.

The Fed last raised rates in November and has tightened monetary policy seven times since early last year when the federal funds rate stood at an historic low of 3 per cent.

Economic data yesterday pointed to continuing robust growth. The Purchasing Managers' Index rose to 57.9 per cent in January against 57.5 per cent in December, signalling a strong expansion in manufacturing industry. Construction spending rose 1 per cent in December – more than analysts expected. The official index of leading indicators edged up 0.1 per cent, after a 0.3 per cent gain in November.



Yesterday's move left economists divided on the outlook for further rate increases. Scattered signs of slower growth, such as weaker retail and car sales and a jump in corporate inventories at the end of last year, have convinced many analysts that a pause in the tightening process is likely, either now or after another half-point rate increase next month.

Editorial Comment ......Page 13
Lex ......Page 14
World stocks ..Second section

"The Fed has just about got the job done," said Mr Stephen Roach, a senior economist at Morgan Stanley, the New York investment bank. The underlying picture on inflation was "superb" while sectors sensitive to interest rates such as housing were already beginning to weaken.

However, other analysts argue that the economy is so close to capacity constraints that significantly higher rates will be required to curb growth and prevent a deterioration in inflation.

Commercial banks are expected to respond swiftly to the latest rise by raising prime lending rates. Market reaction was muted. The stock market pushed down off its session highs, with the Dow Jones Industrial Average up 7 points at 3,851 at 2.30pm.

Bonds edged up slightly but a Treasury announcement soon after that it would issue $40bn in new bonds, sent the long bond down nearly half a point.

Congress backs Clinton on Mexico rescue

By George Graham in Washington, Ted Bardacke in Mexico City and Peter Norman in London

US congressional leaders closed ranks yesterday behind President Bill Clinton's decision to assemble a $50bn international financing package to rescue Mexico from financial crisis.

The rescue plan helped the Mexican peso to rally further yesterday. However, investors remained cautious about how long it would take to repair the economic and political damage caused by December's devaluation and the subsequent crisis.

President Clinton said he was encouraged by the international response to his plan: "It was good for our country. It was good for our jobs, good for the stability of the region."

The financial package included a $20bn contribution from the $25bn US Exchange Stabilisation Fund, which is designed to defend the dollar. Mr Clinton could grant the support without reference to Congress. The legislature had been haggling over guarantees for up to $40bn of borrowing by Mexico.

"The president exercised his authority, he took a tremendous burden on his shoulders, he did what key leaders felt was necessary," said Mr Newt Gingrich, speaker of the House of Representatives.

Mr Robert Rubin, US treasury secretary, said there were still "adequate" foreign currency reserves left to defend the dollar. He also said the $50bn package, which also includes $17.8bn from the International Monetary Fund and $10bn from the Bank for International Settlements, did not set a precedent for other countries.

However, some central bankers have become concerned about the speed with which the Mexican crisis developed. According to British treasury officials, this weekend's meeting of G7 finance ministers and central bank governors in Toronto will ask the IMF to improve its early warning

Continued on Page 14
Samuel Brittan, Page 12
World stocks, second section

Mideast summit aims to rescue peace process

By Mark Nicholson in Cairo

Egypt will today host a hastily arranged summit between the leaders of Israel, Jordan and the Palestinians in an attempt to help restart the suspended Israeli-Palestinian talks and dispel the pessimism which shrouds the Middle East peace process.

The unprecedented meeting is an attempt to rescue the peace talks following the recent deterioration in relations between Israel and the Palestinians caused by the Islamic Jihad suicide bomb in which 21 Israelis died and Israel's subsequent closure of the Gaza Strip and West Bank.

Mr Amr Moussa, Egypt's foreign minister, said the summit aimed "to save the peace process from collapse". He spoke after a brief pre-summit meeting yesterday between President Hosni Mubarak, the Egyptian leader, and Mr Shimon Peres, Israel's foreign minster. Mr Peres described the summit as a "real attempt to create a coalition for peace and not to let the coalition against peace stop it".

The summit, a highly symbolic gathering of Israel and its former enemies, will embrace Mr Mubarak, Mr Yitzhak Rabin, the Israeli prime minister, King Hussein of Jordan and Mr Yassir Arafat, the Palestine Liberation Organisation chairman. The leaders will gather for an iftar meal, the traditional Moslem meal to break the Ramadan fast. Mr Peres called the quadrapartite meeting an "innovative effort in the history of the Middle East".

Both Mr Peres and Mr Moussa were vague on the agenda for today's talks. However, discussion is likely to centre on Israeli security concerns in the wake of the recent bombing and Palestinian anger at the economically damaging closure of the Gaza Strip and West Bank, which prevents tens of thousands of Palestinians from travelling to their jobs in Israel. Palestinian protests over the recent expansion of Israeli settlements are also likely to feature.

Egypt is keen to revive the suspended talks on the next stage of Palestinian autonomy, which have so far failed to resolve issues including the timing of

Continued on Page 14
A fence that may make better neighbours, Page 7

Günter Rexrodt, German economics minister, yesterday said the country's economy was expected to grow by 3 per cent this year and that inflation would remain steady at about 2 per cent. Introducing his annual economic report, he also announced plans for financial aid for the victims of the worst floods Germany has seen this century Page 2; Dykes start to crack, Page 14 Picture: Reuter

British PM calls for trust over Ulster peace process

Rare TV address to reassure province on leaked document

By Robert Peston and David Owen in London

Mr John Major, the British prime minister, last night made a dramatic plea for "time" and "trust" to enable the Dublin and London governments to complete negotiations on a "framework document", which would form the basis of a lasting political settlement to 25 years of violence in Northern Ireland.

In a rare televised address after excerpts from a draft of the document were leaked to The Times newspaper, the prime minister sought to reassure the province's people that "nothing is going to be imposed on Northern Ireland".

His comments were aimed particularly at Northern Ireland's unionists, who are alarmed at the recommendation in the leaked document of a pan-Ireland authority with powers covering relations with the European Union and – in the words of the leaked paper – "sectors involving a natural, physical all-Ireland framework".

Following the removal of the party whip from nine rebel Conservative MPs at the end of last year, Mr Major's government is dependent on support from the nine Ulster Unionist MPs.

Mr James Molyneaux, leader of the Ulster Unionist party, urged the government to abandon negotiating in secret with Dublin and "initiate discussions with the four main [Northern Ireland] parties".

However, the official line from Downing Street last night was that the government would try to pursue talks with Dublin, to finalise the framework document.

As of last night, British and Irish officials were still expected to meet in Dublin today to discuss the framework document.

Mr Dick Spring, Irish foreign minister, said the two governments would not be "deflected from their work". But he said it was "very disquieting" that confidentiality agreed between the governments had been breached.

Mr John Bruton, the Irish prime minister, said the leak could damage "the entire process towards peace and reconcilation". Before yesterday's leak, Downing Street had hoped to reach agreement on the document in two or three weeks. In the broadcast, Mr Major said he could not "guarantee" the success of talks.

However, he stressed that if a framework document were to be achieved, it would not "be a blueprint to impose unity in all Ireland and a betrayal of the promises we have made".

He said that nothing would be "imposed" on Northern Ireland. The new political arrangements for the province would only work "if they are agreed by the people of Northern Ireland".

The framework document would be a "consultation" paper to help the "constitutional parties" – the main Northern Ireland parties, excluding Sinn Fein, for now – reach agreement.

After that, there would be a referendum in Northern Ireland.

To ease unionist fears about the powers of any new authority, he said: "Any new north/south bodies must be accountable to the people of Northern Ireland."

These bodies would "not be run by London, and they cannot and will not be overridden by the British and Irish governments".

Mr Tony Blair, Labour leader, is expected to make a similar broadcast on developments in Northern Ireland tonight.

Labour frontbenchers are privately concerned the government is saying different things to the Unionists about peace from what it has said in Dublin.

Leak threatens to drown Irish peace, Page 3
Editorial Comment, Page 13

CONTENTS

No 32,590 Week No 5 LONDON · PARIS · FRANKFURT · STOCKHOLM · NEW YORK · TOKYO

EU close to deal on entry by Cyprus

By Lionel Barber in Brussels

The European Union is close to a diplomatic breakthrough aimed at defusing tensions between Greece and Turkey over Cyprus and paving the way for accession to the EU around the turn of the century.

Under a plan put forward by France and the European Commission, Greece would agree to drop its opposition to the proposed EU-Turkey customs union by March 6. In return, the EU would meet Greek demands for a timetable for future membership for Cyprus.

The initiative seeks to break the deadlock over Cyprus which has existed since the Turkish army invaded the island in 1974 in response to a Greek Cypriot coup backed by Athens. It is to be discussed at a meeting of EU foreign ministers in Brussels on Monday.

Senior European diplomats expressed confidence that the 15-member Union, including Greece, would offer support to the plan which breaks the previous understanding that Cyprus could not join the Union until the divided island reaches a peace settlement.

The plan offers to open accession negotiations with the Greek Cypriot government "no later than six months" after the conclusion of the 1996 inter-governmental conference to review the Maastricht treaty. Most believe the IGC could last at least 18 months.

"It is a serious offer," said a Greek official. Greece's principal demand has been to fix a timetable for accession negotiations with Cyprus."

However, serious obstacles to a political deal on Cyprus remain – specifically the reaction of Ankara and the Turkish Cypriots. Mr Rauf Denktash, the Turk Cypriot leader, has threatened to seek closer integration with Turkey if EU were to accept a membership application from one part of the divided island. He wants both Greek and Turkish communities to hold a referendum before Cyprus itself applies for membership.

However, France, which holds the rotating EU presidency, and the UK, one of the co-guarantors with Greece and Turkey of the status of Cyprus, are shifting toward a common view: that the prospect of EU membership and its economic benefits could act as a carrot for the Turkish Cypriots to break with Mr Denktash and a catalyst for a political settlement. Brussels is also gambling that economic arguments will weigh with the government in Ankara which was bitterly disappointed last December when the EU – prodded by Greece – blocked an agreement on a customs union.

Diplomats cautioned yesterday that the final wording on membership could still prove troublesome, because the Union's offer of a firm timetable goes beyond what is available to the countries of central and eastern Europe.

Germany, the chief sponsor of EU enlargement to the east, is said to have reservations about a fast track for Cyprus. But Bonn realises that weakening the commitment to membership for Cyprus, would risk losing Greek support. The plan is likely to be discussed in London today by Turkish, British, German, French and Italian foreign ministers.

Separately, the promise of membership for Cyprus requires equal treatment for the island of Malta. But the entry of tiny Malta would accelerate demands for institutional reform such as more majority voting in the 1996 inter-governmental conference – a point which could prove highly controversial in the UK.

Editorial comment, Page 13

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Politicians bicker over floods blame

By Haig Simonian in Bonn

Ms Annemarie Jouritsma, the Netherlands transport minister, yesterday blamed intensive German building along the Rhine for aggravating the second severe flooding in 13 months. "Part of the problem is that the flow of the Rhine has been changed through building work," she said.

Her remarks were echoed by Mr Gerhard von Haus, the chief executive of the German inner-shipping association. "The river flows much faster than before because forests have been cut down, land reclaimed and industry and housing developed along the river banks," he said.

Political bickering about responsibility for the floods has gathered pace as the danger of inundation has shifted north-west from Germany to the Netherlands.

The German cabinet yesterday approved spending DM30m (£12.5m) to subsidise DM300m in soft loans to businesses affected by the flood waters. The government plans to authorise a further DM700m in special loans to home owners, while Mr Gunter Rexrodt, the economics minister, called on state governments to come up with a similar sum.

Meanwhile, traditional conflicts between north and south Germany were resurfacing as local councils started planning their clean-up campaigns as the Rhine waters receded. Social Democrats in North Rhine Westphalia, one of the worst affected states, blamed right-wing counterparts in Baden-Württemberg for refusing to open upstream flood meadows to help control the floods downstream.

However, Mrs Angela Merkel, the environment minister, said such action "wouldn't have had any effect". She said opening the flood barriers would have left the Baden-Württemberg state government liable to legal action from local citizens, who might have suffered flooding because of the rising water table.

The erection of high concrete banks mean the Rhine has been tamed from its source as far downstream as Karlsruhe in southern Germany. That leaves little room for either natural or even controlled flooding to protect downstream areas.

However, the floods have highlighted the need for better co-ordination to tackle a problem that does not respect political frontiers. In Germany, matters are complicated by the federal system, which leaves flood control a communal or state responsibility. Apparent failings have triggered calls for shifting the onus to the federal environment ministry.

International co-operation already takes place, with regular exchanges of information between Swiss, German and Dutch river authorities. The Swiss send daily faxes on Rhine water levels to their counterparts. "Obviously, we talk much more often when necessary," says Mr Dieter Prellberg of the Rhine flood control centre in Mainz.

The long-term solution probably lies in building more controlled flooding zones. Though some are under construction along the Franco-German frontier, where the Rhine is broadest, the latest floods will intensify calls for more to be prepared. "Such measures are essential," says Mr von Haus. "However it will take years until they're all ready."

Scramble to plug cracks in dykes

By Ronald van de Krol in Amsterdam

Dutch emergency crews yesterday rushed to shore up dykes along the Waal River as Mr Wim Kok, the Dutch prime minister, admitted that river defences had been neglected in favour of its sea dykes.

In the village of Ochten, crews of soldiers and volunteers repaired cracks in a 170-metre stretch of dyke. They draped long sheets of plastic along the dyke, holding them down with hundreds of sandbags. The temporary repairs will need to be followed by a big programme of rebuilding and strengthening dykes after the floods recede.

Mr Kok called for a "Delta Plan" for the rivers similar to the sea defences built along the coast after a winter storm in 1953 smashed through sea dykes and dunes, drowning more than 1,800 people.

"The Netherlands has a long history and a distinguished reputation when it comes to holding back the sea," he said in parliament. "Now that the danger posed by the rivers is proving greater than many had supposed, we must show that we are worthy."

Until now, plans to raise the river dykes to what is called "Delta Level" have been thwarted by opposition from some local residents. Before this emergency, they opposed the building of long, straight concrete dykes to replace the meandering earthen dykes, some of them centuries old, which are synonymous with the Dutch countryside.

In recent days, the dykes, made of packed earth and reinforced in places by mortar and concrete, have become soft and spongy, with the fast-moving water putting additional pressure on the dyke walls. At the same time, the bulging dykes have pushed up ground water levels in the surrounding countryside, causing additional flooding.

The danger facing the river dykes is not so much that they will suddenly burst, but that will slowly crumble and subside, allowing water to rush into residential areas and farmland below. The 22,000 people who live in and near Ochten were told yesterday by the authorities to evacuate their homes by this morning in case the dyke should break.

Volunteer firefighters at Culemborg unload sandbags alongside a dyke at Varik in Gelderland Reuter

Damage to economy could cost Fl 2bn

By Ronald van de Krol

The 250,000 people who have been forced to flee in the face of flood waters are heavily outnumbered by the millions of farm animals that have been evacuated from low-lying farms, underlining the cost of the floods to the Netherlands' extensive agricultural sector.

Over the past two days, more than 1.5m chickens, 50,000 sheep, 450,000 pigs and 500,000 head of cattle have been transported to safety.

In spite of the large-scale evacuation, the cost of the floods to Dutch farmers is expected to be significant, with some putting the immediate losses at a minimum of Fl 100m ($58m).

Besides agriculture, other key businesses affected are the transport and distribution sectors.

For example, book shops around the country will not receive new stocks of books for several days because a central warehouse used the publishing industry is located in Culemborg, a town in the province of Gelderland that has been evacuated and sealed off.

Economists believe damages in the affected regions could amount to Fl 2bn.

The real figure will depend on whether the river dikes, particularly in Gelderland, continue to hold. If they were breached, damage to property would be high, though the loss of human life should be small because of the evacuation of villages and towns.

The Dutch cabinet met yesterday to start deciding how to compensate industry and home owners for the damage they have suffered. Most companies and homeowners are not insured for flood losses because Dutch insurers routinely exclude flood damages from policies, along with other calamities such as war and earthquakes.

After the immediate flood danger has passed, farmers and businesses in particular will be looking to the national government for aid.

Mr Hans Wijers, minister of economic affairs, acknowledged yesterday that the government will be asked for financial aid. He said it would be "extremely difficult to accept if companies were to find themselves facing bankruptcy as a result of this extraordinary situation".

Barge owners count the cost of disruption

By Haig Simonian in Bonn and Ronald Van Der Krol in Amsterdam

Germany's hard-pressed barge crews have been cursing the flood waters which have led to a week-long suspension of shipping and tightened the financial screws on many independent operators.

"Old father Rhine" is the world's busiest inland waterway, with heavily stocked barges sometimes following each other as closely as airplanes landing at a popular airport. Some 8,000 people work on river barges in Germany alone, with a further 1,500 employed onshore, according to Mr Gerhard von Haus, the chief executive of the German inland shipping association.

Barge traffic plays a central part in Germany's freight transport system. Around 3,000 barges ply the waters with a mixture of goods from fruit to fertilisers. Bulk cargoes form the mainstay of the business, in the shape of coal, building materials and minerals, and farm products. But the river also carries large shipments of oil and chemicals, as well as hazardous products.

More than a quarter of building materials travel by barge, a fifth of oil shipments and more than a sixth of all minerals. In 1994, the inland shipping network carried about 230m tonnes of cargo, amounting to more than three quarters of that transported by rail and 22 per cent of Germany's overall long distance freight traffic. The river shipping industry's main customers are the big companies whose processes need large quantities of water, and are therefore located along the river. Electricity generation and chemicals are foremost, with agriculture not far behind. The temporary ban on shipping has not yet caused shortages among companies affected. However, that situation might change if matters do not return to normal relatively soon.

According to an official at BASF, one of Germany's biggest chemicals groups, which transports 46 per cent of its raw materials by barge, the suspension is not too serious. "The Rhine is important for transporting raw materials, but we always keep adequate stocks," it said. However, the ban on shipping, which is expected to be revoked by the middle of next week, has had an impact on barge owners' incomes. The ban was imposed on the upper Rhine on January 25 and extended downstream two days later.

The Dutch barge fleet is much bigger than the German, and has been badly hit. Nearly 90 per cent of the Dutch fleet of 6,000 barges has been laid up by the flooding.

The Dutch fleet, by far the largest in Europe, is estimated to be suffering losses of Fl 10m (£3.7m) for every day that it cannot transport goods along the Rhine into Germany and Switzerland and along the Meuse into Belgium and France.

The ban on plying the Rhine and its tributaries is expected to last around a week.

Unlike Germany and Switzerland, where most barges are run by transport companies, Dutch barges tend to be family owned. Their cargoes are generally bulk products such as coal, iron ore and sand, but increasingly barges are also taking on board containers in order to compete with road and rail transport.

Minister's criticism angers Sabena chief

By Emma Tucker in Brussels

A row between the Belgian government and Sabena, the national airline it partially owns, erupted in public yesterday, over the sensitive issue of Belgium's exceptionally high employers' costs.

It coincided with an announcement from the Belgian communications minister that Swissair was reconsidering its offer of a partnership with Sabena and planned to make a new proposal that could involve a request for substantial Belgian government aid.

Amid continuing uncertainty over the airline's future, Mr Pierre Godfroid, chairman of Sabena, wrote a furious letter to the Belgian press saying Mr Philippe Maystadt, the finance minister, had no right to criticise the airline's plans to shift about 480 Sabena pilots to Luxembourg, to save money on crippling social security costs.

"I won't take any lessons from anyone," said Mr Godfroid. "When I arrived at Sabena, I inherited a company in a shambles, on the verge of bankruptcy and with a balance sheet that did not reflect reality."

Mr Maystadt, worried about the precedent that Sabena would set, said the government had bailed out the company with state aid in the past and given it special tax treatment.

"What would happen to our country if all business heads came to the same conclusion," Mr Maystadt was quoted as saying in Le Soir newspaper.

Later in the day, Mr Elio Di Rupo, the Belgian communications minister, joined Mr Maystadt in criticising the idea of relocation which had been included in a five-year business plan given to Swissair to enable it to evaluate Sabena. He made it clear that negotiations with Swissair to acquire a 49.9 per cent stake could be affected. However, Swissair said last night that negotiations had suffered merely a temporary hiccup and that it was its deep conviction that it could do excellent business with Sabena.

The row over relocation to Luxembourg highlights the Belgian government's sensitivity to criticism of its social security costs – among the highest in the EU.

Mr Godfroid said in his letter that he believed the plan for pilots – which is unlikely to go ahead – would save jobs and help to conclude the partnership with Swissair.

Last month Luxembourg's carrier Luxair rejected a move by Sabena to strengthen co-operation by sharing pilots and planes. It chose instead to intensify co-operation with Germany's Lufthansa, proof, according to Sabena yesterday, that the Belgian airline was unable to compete properly.

A spokesman said it cost Sabena more than any other EU airline to employ its pilots. However, because of high employers' costs and income taxes the pilots took home less than their competitors.

"This is creating real tension in the market," said a spokesman.

Legally the government cannot stop Sabena from relocating its pilots to Luxembourg. The two airlines already co-operate in areas such as fleet maintenance and aircraft certification.

EUROPEAN NEWS DIGEST

Brussels reveals telecoms rules

The European Commission proposed rules yesterday to govern telecommunications in the run-up to the liberalisation of competition in the industry after January 1 1998. EU states would be required to comply with the new rules by next December 31. The proposals would require national authorities to set quality targets for voice telephone service in areas such as installation time, dial tone delays, repair time, call failure rates and response time from operators. They would also have to publish transparent tariffs, issue phone directories regularly and install a reasonable number of public pay phones. They would also be asked to work together to ensure that consumers could use a single pay phonecard or dial a toll-free telephone number anywhere in the EU. National authorities could refuse access to competitors of national monopolies only under special circumstances and the decision would have to be made under well-defined procedures. *Reuter, Brussels*

Brittan shares Brussels post

The European Commission yesterday chose Sir Leon Brittan, chief EU trade negotiator, and Mr Manuel Marin, the Spanish commissioner for Latin America and the Mediterranean, as vice-presidents to Mr Jacques Santer, the new Commission president. Sir Leon said the post would allow him to "push for a positive British role in the EU with increased vigour". The newly enlarged 20-strong Commission was forced into a second round of voting after Sir Leon emerged as the only candidate with a majority of 11 in the first round. Mr Martin Bangemann, the German commissioner for information and technology, then withdrew his candidature. The second round saw Mr Marin secure 12 votes against 8 for Ms Edith Cresson, commissioner for science, research and development. The vote provides the Commission with a broad political spectrum at the top – Mr Santer a Christian Democrat, Mr Marin a socialist and Mr Brittan a conservative. *Caroline Southey, Brussels*

Germany optimistic on growth

Mr Günter Rexrodt, the German economics minister, yesterday said the economy was expected to grow by 3 per cent this year and inflation would remain steady at about 2 per cent. The western German economy is expected to grow by around 2.5 per cent over last year while the five eastern German *Länder* are expected to grow by up to 10 per cent. Unemployment is likely to fall by around 300,000 to an annual average of 3.4m. Mr Rexrodt's forecast in the government's annual economic report was underpinned by preliminary figures released yesterday showing a 2 per cent month-on-month rise in industrial output in December, driven mainly by construction and energy output. Mr Rexrodt also warned Germany's unions not to press claims for higher wages in the current wage round. The unions are expected to press ahead with strikes to back their claims for a 6 per cent wage rise. *Michael Lindemann, Bonn*

Kohl plans break-up of ARD

German Chancellor Helmut Kohl yesterday proposed breaking up the federal-wide transmission structure of ARD, Germany's main federal television network. The proposals follow increasingly sharp attacks on the Cologne-based Westdeutscher Rundfunk (WDR), the largest broadcasting network within ARD. Eleven regional broadcasting corporations are grouped under the ARD umbrella, which operates a nationally transmitted television programme called Channel One and is funded by a licence fee. The regional stations provide broadcasting material to ARD. WDR, which is politically inclined towards the opposition Social Democratic party, makes 22 per cent of ARD's programmes and about 35 per cent of its political documentaries. It also puts out through the ARD network the politically trenchant monthly "Monitor" programme which has been singled out by CDU officials as overtly critical of government policy. "Kohl is using ARD's poor finances as an excuse to break up the federal network, and make sure the regional television networks are purely regional," said Mr Friedrich Nowottny, the director of WDR. *Judy Dempsey, Berlin*

BAe warned over Airbus role

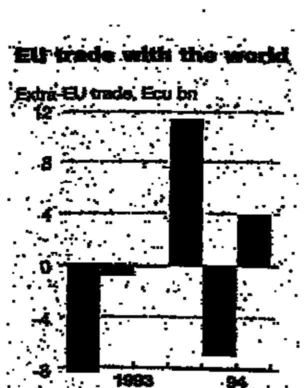
Mr Henri Conze, head of the French defence procurement agency, said yesterday that British Aerospace could be forced out of the Airbus airliner consortium if the UK was not fully committed to developing the new FLA military transport aircraft. In an interview with *Les Echos* newspaper in Paris, Mr Conze said: "If some of the FLA partners take the view that the British commitment is insufficient, one could well see a European manufacturer demand the withdrawal of British Aerospace from its sphere of activities in Airbus in the framework of the FLA programme. And what would happen with future programmes?" In December Britain decided to buy 25 Lockheed Hercules aircraft rather than waiting for the FLA. However, at the same time the UK agreed in principle to rejoin the FLA programme which it left in 1989. *Bernard Gray, Defence Correspondent*

Belgian MP given jail term

Mr Jean-Pierre Van Rossem, a Belgian member of parliament and former multi-millionaire, was sentenced to five years imprisonment yesterday for fraud, forgery and fraudulent bankruptcy. He was elected to parliament in November 1991 while in jail on fraud charges and was sentenced in his absence because he has parliamentary immunity from arrest. He is expected to appeal. If the sentence is confirmed the public prosecutor will have to ask parliament to lift Van Rossem's immunity before he can be jailed. The court also seized about BFr7m ($225,000) from a number of Van Rossem's foreign bank accounts and eight luxury cars, including six Ferraris. The former heroin addict made a fortune with a formula for earning cash on the stock market but says he lost it in the 1989 market crash. Former clients say they lost BFr4.5bn through his investment scheme. *Reuter, Brussels*

ECONOMIC WATCH

EU's trade deficit decreases



The EU trade deficit with the rest of the world fell to Ecu3.037bn (£2.38bn) in the first six months of 1994 from Ecu9.3bn a year earlier, the EU's statistical service, Eurostat, reported yesterday. In the second quarter there was a surplus of Ecu4.0bn compared with a deficit of Ecu0.9bn in the second quarter of 1993. Imports in the second quarter rose 10.9 per cent from a year earlier to Ecu183.979bn. Exports in the second quarter rose 13.6 per cent to Ecu136.413bn. Trade within the EU single market grew by nearly 9 per cent in the first half. The increase in exports in the first half was strong in Belgium and Luxembourg, up 27.1 per cent, and Ireland, up 22.4 per cent. The upward trend in imports was also pronounced there, and in the Netherlands. *AFX, London*

■ Turkey's total industrial output shrank by an average of 4.8 per cent last year, after a 6.7 per cent rise in 1993.

■ Italy's car production rose 20 per cent in 1994, to 1.34m units, outpacing an average world increase by the auto industry of 4.8 per cent.

■ The Spanish budget deficit fell by 8.3 per cent in 1994 from 1993 to Pta3,467bn (£16.7bn). Revenue rose by 2.2 per cent and expenditure fell by 0.2 per cent.

■ The Romanian trade deficit was $304.5m in December after $73.9m in November.

NEWS: EUROPE

New Italian PM given Senate's lukewarm approval for reform

Dini wins cautious backing

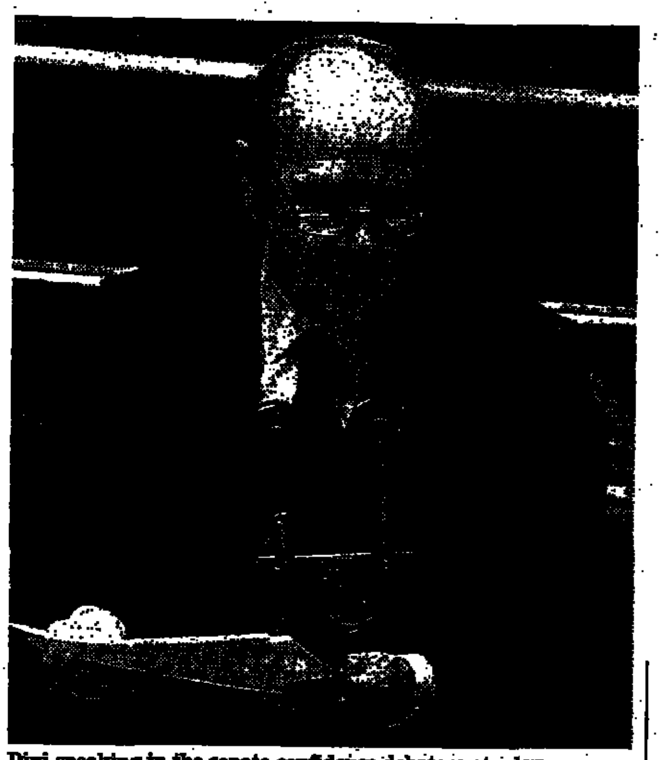
By Robert Graham in Rome

The government of the Italian prime minister, Mr Lamberto Dini, yesterday obtained an easy vote of confidence from the Italian Senate, overcoming the final hurdle for the new administration to begin operations.

The vote showed 191 voting in favour, 17 against and two abstaining. However, 114 senators chose to absent themselves from the chamber before counting. The bulk of these were members of the outgoing rightwing coalition headed by Mr Silvio Berlusconi. They declined to vote in order to demonstrate lukewarm backing for the new government, which is composed entirely of non-parliamentarians.

Their walk-out counted symbolically less than a formal abstention which in the Senate is treated numerically as a negative vote. In the chamber of deputies last Wednesday, the rightwing coalition had abstained. But Mr Dini, the former director-general of the Bank of Italy, obtained 302 votes in favour against 270 abstentions and 39 no votes.

The outcome was a foregone conclusion. But the line-up of the political parties for and against Italy's 54th post-war government served as a powerful reminder that its mandate was limited and its support precarious. Mr Dini, heading a centre-right administration, is being backed by the centre-left – even though he was the treasury minister in the former government and was put forward by this coalition as a prospective prime minister.



Dini speaking in the senate confidence debate yesterday Reuter

Mr Dini has pledged to concentrate on four priorities: a mini-budget to correct Italy's deteriorating public finances, pension reform, temporary rules governing proper use of the media during elections and reform of regional election laws. In a closing speech to the Senate, Mr Dini added little more to the policy guidelines he outlined last week.

However, he repeated that the mini-budget would be not less than 1 per cent of GDP. Economists believe he will need to find up to L18,000bn ($11bn) in new taxes and fresh revenues.

Mr Berlusconi and allies yesterday indicated that so long as the government restricted itself to a limited mandate, it would enjoy tacit backing. But they also demonstrated they had eyes on early elections. The coalition has formed a special co-ordinating committee under Mr Berlusconi.

CORRECTION

National Alliance

An article in the Financial Times on January 26 on the Italian National Alliance incorrectly quoted a document published at its recent congress. It should have read, "the political right is not the son of fascism." We apologise for the error.

Blockade hardens hearts

Macedonians defiant in face of Greek embargo, writes Kerin Hope

As Mr Ljupco Jovanov, once the manager at Macedonia's largest furniture-maker, shuts up his goats for the night, he nods towards passers-by in the village street: "The population here has doubled in the past couple of years since the economy started coming apart."

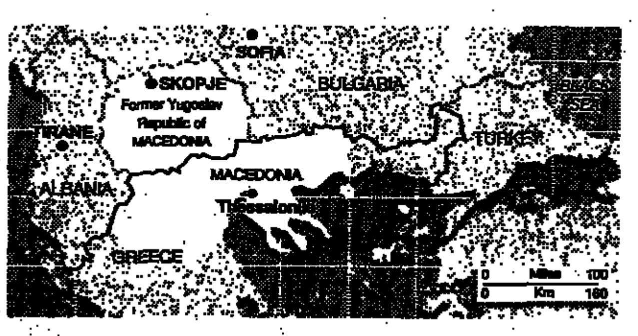
Mralino, where Mr Jovanov now makes a living breeding pigs and goats, and other villages around Skopje, the ex-Yugoslav republic's capital, are filling up with laid-off factory workers for whom weekend farming has turned into a full-time occupation.

Industrial output has dropped by 9 per cent in the year since Greece imposed a unilateral trade embargo against Macedonia, exacerbating the problems caused by UN sanctions against Serbia, the republic's main trading partner. Macedonia's gross domestic product in 1994 was less than half that of 1990.

Registered unemployment is about 30 per cent, but another 5 per cent of the workforce are on forced leave. The government is so short of cash that pensions and unemployment benefits are being paid almost six months in arrears.

Mr Hari Kostov, deputy finance minister, estimates the Greek blockade has cost the country $600m, equivalent to about 50 per cent of yearly export earnings: "The main cost is in higher transport charges because we have to trade through Albania and Bulgaria, but industry also suffers from not being able to import raw materials in bulk."

The embargo was intended to force Macedonia into making concessions over its name, flag and constitution, seen in Greece as implying a claim to the northern Greek province of Macedonia. But it has backfired, isolating Greece from its EU partners and costing more than $100m in lost exports and port dues at Thessaloniki, the landlocked republic's nearest outlet to the sea.



Moreover, Greece was yesterday taken before the European Court of Justice by the European Commission on charges of violating the Rome and Maastricht treaties by blocking EU trade with Macedonia.

UN-sponsored talks between Greek and Macedonian officials, frozen last year while parliamentary elections were held in Macedonia and local elections in Greece, appear unlikely to resume soon, given the policy-making vacuum in Athens.

Mr Andreas Papandreou, the ailing Socialist prime minister, who imposed the blockade in spite of warnings from his advisers, is increasingly preoccupied with internal disputes in the governing Panhellenic Socialist Movement.

Nor do the Macedonians appear willing to give ground. Mr Stevo Crvenkovski, foreign minister, says: "We're not prepared to negotiate on the name and flag issues while the embargo continues, and we have no contact with Athens – all we get from Greece is bad vibrations."

The Macedonian government's defiant mood is reinforced by the country's capacity to meet the targets of an International Monetary Fund stabilisation plan launched last year in spite of the Greek blockade. The annual inflation rate fell to 58 per cent last year, from almost 250 per cent in 1993. The budget deficit was cut from 10 to 3.5 per cent of GDP. This year the country's balance of payments problems should be eased with the freeing of a much-delayed IMF standby loan of around $50m.

Fears of a serious fuel shortage this winter are receding as imports of crude oil by rail from Thessaloniki have been replaced by petroleum products trucked in from Bulgaria and Albania.

The government's policy was to build up reserves over the summer, while limiting sales by petrol stations. Fuel prices are pegged to the D-Mark, which replaces the Macedonian denar in many transactions as a result of the steady flow of cash remittances from Macedonians working in Germany and Switzerland.

In spite of the continuing stand-off, prospects for an eventual compromise with Greece look more promising with the eclipse of Macedonia's hardline nationalist party, the Internal Macedonian Revolutionary Movement (VMRO), after its boycott of parliamentary elections last November.

In Greece, too, nationalist feeling stirred up by Macedonia's emergence as an independent state under a name the Greeks associate with Alexander the Great's ancient kingdom, is waning. Mr Carolos Papoulias, the Greek foreign minister, was sharply criticised at home last week for refusing to attend ceremonies to mark the 50th anniversary of the liberation of Auschwitz. He objected to the Macedonian flag, which carries a symbol linked with the ancient kings of Macedon, being flown there.

EU case against Athens opens

The European Commission and the Greek government yesterday presented their arguments to the European Court of Justice in the Commission's case against Athens over its trade embargo on the former Yugoslav republic of Macedonia, writes Caroline Southey.

The Greek government has justified the embargo on the basis of national security arguing that the Macedonian name, flag and constitution amount to a territorial claim to its northern province. The Commission asserts that the Greek government is breaking EU rules which prevent member states from unilaterally closing one of the Union's external borders. In June last year the court refused the Commission's request for an emergency interim ruling ordering an end to the blockade.

The hearing yesterday was held in camera because it touches on national security matters. The Advocate General is expected to deliver his opinion in six to eight weeks' time. The final court ruling is not expected before July.

Russian treasury bill sales expose economic policy flaws

By Chrystia Freeland in Moscow

In a sign of deepening crisis in Russian government efforts to rein in inflation, dealers said that yields on treasury bills were pushed higher yesterday despite efforts by the central bank to prop up the treasury bills programme.

The treasury bills programme is a central part of the Russian government's efforts to stabilise the economy and bolster the weakening rouble.

In the autumn, the government promised to stop covering the budget deficit by borrowing from the central bank, a practice which amounted to printing roubles and which drove up inflation last year.

Instead, the government had hoped to cover a significant portion of its deficit by selling treasury bills. But inflationary expectations have driven up the price of treasury bills for the government and over the past few days the central bank has reportedly been intervening heavily in the market.

"This is a covert way to print money," said Mr Andrei Volgin, head of a Russian brokerage house and an adviser to the government's new securities commission. "There's no difference between the central bank printing money directly and the central bank buying up the government's own treasury bills."

'There's no difference between the central bank printing money directly and buying up treasury bills'

A western banker who trades Russian debt said the central bank's intervention in the treasury bill market was like "the government writing a cheque to itself".

Some dealers are concerned that the mounting costs of treasury bills, which are being issued in part to cover bills which are now reaching maturity, could ultimately force the government to monetise its deficit, leading to even higher inflation. "The ministry of finance is playing the same game as MMM," Mr Volgin said in reference to the notorious pyramid investment scheme which collapsed over the summer. "It is issuing new treasury bills today simply to cover old ones." The central bank has been forced to intervene in the treasury bill market because inflationary expectations and the weakness of the rouble are forcing the government to offer very high yields in order to attract private investors.

Dealers said that the central bank purchased 95 per cent of treasury bills sold last Friday and believed that the bank again intervened heavily to prop up the market yesterday.

In trading yesterday the government placed Rbs1,386bn worth of three-month treasury bills at average yields of 320 per cent. But, even at these rates, the treasury bills were undersubscribed. The government had hoped to sell Rbs2,000bn of treasury bills, but dealers said many bids were turned down because the government refused to pay the higher yields the market was demanding.

The crisis in the treasury bills programme comes at a time when the Russian government is trying to demonstrate its commitment to fiscal and monetary austerity to the International Monetary Fund, currently discussing a possible $6.25bn (£4bn) standby loan with Moscow.

"Clearly the Russians are trying to do everything they can to achieve the window-dressing of a balanced budget, but they still want to subsidise some sectors of the economy," one western banker in London said. "To do that, they are being forced to buy their own treasury bills."

NEWS: ASIA-PACIFIC

Costs 'will rocket as burden on infrastructure increases'

East Asia is warned over urban growth

By Peter Montagnon, Asia Editor

The urban population of East Asian developing countries will jump to more than 1.2bn in the next 25 years from 500m at present, necessitating huge additional expenditure on infrastructure, according to internal forecasts by World Bank economists.

The bill for the next 10 years alone could run to as much as $1,200bn or even $1,500bn.

The developing countries concerned, which on the bank's definition include all of east Asia except Japan, Hong Kong, Singapore and Taiwan, will have to step up their investment in infrastructure to 6.5-7 per cent of gross domestic product from 5 per cent at present.

Though the economists admit such forecasts can never be precise, they say the figures give an indication of the consequences of steady migration to the cities taking place in east Asia.

Bank officials believe that meeting infrastructure needs has emerged as one of the region's most serious policy challenges, which the region's fast growth alone will not resolve.

World Bank officials believe governments have not yet grasped the extent of the effort that will be required. In theory, there should be no difficulty in mobilising private-sector expertise, as international companies are keen to undertake the work.

Malaysia has led the way with private-sector sponsorship for road, power and water projects, but a large number of projects elsewhere still fail to get off the ground.

A vital requirement is the creation of an appropriate regulatory framework so that the host countries acquire efficient utilities while the private-sector providers enjoy predictable treatment, bank officials believe. Corruption makes regulation difficult in many Asian countries, but the officials argue that Philippines power-sector reforms under President Fidel Ramos show this problem can be overcome.

Since the cost of capital is higher for private-sector sponsors than for governments, the private sector must deliver efficiency gains if it is to provide value to the consumer, officials say.

That in turn requires an innovative approach to regulation to stimulate competition.

As examples, they cite plans by the Philippines to carve up the water supply franchise in Manila into four or six separate areas so that levels of service can be compared. In the power sector, the Philippines is also separating the roles of generation from distribution and transmission to promote competition.

Large international contracting companies such as GE and Bechtel should not mind the idea of competition even though it eats into their returns, the officials say, because impartial regulation makes the idea of private-sector involvement in infrastructure provision more sustainable in the long term.

The World Bank has developed a new risk guarantee facility to help protect such companies against the impact of arbitrary policy changes by governments in areas such as pricing and foreign exchange controls. It is also promoting domestic capital markets in the developing countries. These might be used to raise pooled funds which could be applied to several projects, thus reducing the overall risk.

Price policy gives Beijing food for thought

Officials are caught between rural and urban demands

Government efforts to ensure abundant food supplies have meant throngs of Chinese New Year shoppers are enjoying the festival of plenty they have come to expect, a correspondent writes from Beijing. However, sharply higher food prices cloud the outlook and pose a dilemma for government officials anxious to boost rural living standards but worried that urban discontent could, in a replay of 1989 unrest, again become a political trigger.

"This is a leadership caught between the farmers and consumers in the cities. If you raise prices for farmers, that translates into higher prices for consumers. But if you raise urban prices, that could lead to political unrest," says a western economist, estimating that up to 80 per cent of an urban worker's salary goes on food.

Last year inflation hit its highest level since the Communist victory in 1949. The consumer price index rose 24.2 per cent as the economy grew by 11.8 per cent. Soaring food prices accounted for more than 60 per cent of the inflationary surge, the government said.

Setting ambitious targets for 1995, government forecasters maintain they can control growth at about 9 per cent and inflation at about 15 per cent. The annual inflation rate eased slightly in December, although State Planning Commission officials cautioned that food prices continued to rise in 35 big cities and would remain under pressure in coming months, the New China News Agency reported.

The government blamed last year's higher food prices on natural disasters, which depressed grain output 2.6 per cent from the record 455m tonnes in 1993. Profiteering by private businessmen and local governments which bought grain directly from farmers also raised prices. China, a net grain exporter in recent years, imported wheat, rice, soybean oil, cotton and sugar at the end of 1994.

But western agricultural experts suggest the big price increases of 1994 are unlikely to be repeated this year. After rolling back price liberalisation last year, the government appears ready to control prices by fiat.

In 1994 the government induced an inflationary surge by raising its grain procurement prices more than 40 per cent to increase farmers' incomes, and liberalising grain markets. Amid rapid economic growth and rising prices, farmers hoarded supplies and consumers stocked up in free markets and government-run grain stores.

In the summer the government moved to reinstate its control over grain purchases and grain rationing, a mainstay of socialist planning, in the cities. In some north-eastern provinces, where many workers in state enterprises live from hand to mouth, pensioners and other needy people were reissued coupons to buy grain at a 25 per cent discount on the market price the previous autumn. The coupons, abandoned only a year ago by the government, have now spread to cities in Xinjiang, Shandong, Sichuan, Hunan and Anhui.

Noting unease over eroding purchasing power, Beijing has ordered local authorities to control prices strictly during the New Year festival and in coming months. New loans were issued in Beijing, Shanghai and Tianjin, the largest cities, to maintain stocks in shops and department stores and to hold down prices.

"To halt inflation, we must first increase the effective supply of farm products," a recent commentary in People's Daily, the official newspaper of the Communist party, said. With Chinese grain prices already above international levels, another jump in procurement prices similar to 1994 is not expected. Barring floods or other disasters, grain production should rebound to 1993 levels.

Still, food prices are expected to remain high due to poor transport and distribution. Last year bottlenecks and inefficient marketing kept China's considerable grain stocks from reaching some key coastal markets and forced the government to turn to international markets to cover local shortfalls.

Chinese consumers are also developing tastes for costlier meats, fruits and processed foods; despite their grumbling, they seem ready to pay the price. In Dalian, in Liaoning province, workers report that many of the new food coupons are going unused because locals prefer the better quality, albeit more expensive, grain products in the free markets.

Current account deficit hits peak in Australia

By Nikki Tait in Sydney

Australia's current account deficit soared to an all-time monthly record in December, reaching a seasonally adjusted A$2.386bn ($1.82bn).

The figure compares with a A$3bn deficit in the previous month, and a A$1.64bn deficit in December 1994. It comes a day after Mr Ralph Willis, federal treasurer, conceded that previous estimates of an A$18bn current account deficit for the 1994-95 financial year were optimistic. The government is now forecasting a A$26bn deficit for the year overall, equivalent to 5.75 per cent of gross domestic product.

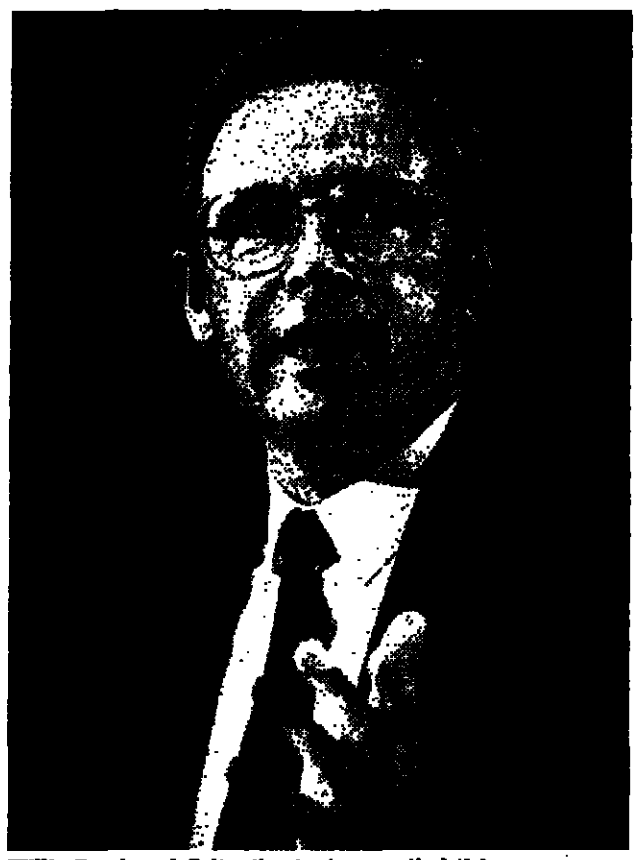
Exports, in adjusted terms, slipped slightly from November's A$5.48bn to A$5.20bn last month, while imports rose by 6.4 per cent to A$6.43bn. Rural exports dropped by about 15 per cent to A$1.48bn. The figures confirmed economists' worst suspicious: surging domestic demand has created an investment boom, and encouraged imports of capital goods. At the same time, a strong dollar, the impact on rural exports of the drought (now breaking) and Japan's slow recovery has constrained export performance.

"The impact of the drought on rural exports is starting to be reflected in the figures and is expected to dampen rural exports in the coming months," Mr Willis said.

More encouraging were figures which showed building approvals fell again last month, while retail sales were 0.2 per cent below the November figure on a seasonally adjusted basis. The retail trade figures, in particular, encouraged hopes that the three interest rate rises undertaken last year may be cooling demand.

The trade figures, though poor, were largely in line with economists' expectations, and financial markets took the news fairly calmly. Earlier in the day, Mr Willis indicated that the May budget, in which the government has promised to tighten fiscal policy, will contain measures designed to lift Australia's lowly national savings performance.

"One way that's shown to be helpful...is compulsory saving, as we have through the superannuation guarantee charge, and certainly some enhancement...of that [is possible]."



Willis: Previous deficit estimates 'were optimistic'

US faces key decision over Korean links

The liaison issue is set to test Seoul's trust in Washington

By John Burton in Seoul

Mr Gong Ro-yong, South Korea's foreign minister, will travel to Washington at the weekend as the US prepares to confront what could be a key decision on its relations with both North and South Korea.

Mr Gong's trip comes as US officials are in Pyongyang to discuss the possible opening of liaison offices with North Korea in the first step toward full diplomatic recognition. North Korea is pressing the US to agree the liaison offices by April, but Washington says it will not do so until Pyongyang resumes political dialogue with Seoul.

South Korean officials worry whether the US will stick to that commitment should it jeopardise the US-North Korean nuclear accord, which is proceeding smoothly.

The anxiety among officials in Seoul reflects a belief that South Korea has been sidelined, with North Korea and the US setting the agenda on the Korean peninsula since the nuclear accord was signed in October. The US promised to establish diplomatic ties with Pyongyang if North Korea dismantles its nuclear programme.

In December, the North appeared to use the incident of a US army helicopter which crashed over its territory as a pretext to establish direct military contacts with the US, bypassing Seoul. "North Korea is liable to seek inter-Korean confrontation and a South Korea-US split due to its internal problems," South Korean President Kim Young-sam recently warned.

North Korean diplomacy has sought to exploit differences among friends and foes. Pyongyang played off the Soviet Union against China, its two main allies, in winning their joint support for North Korea's attack on South Korea in 1950. It later took advantage of the Sino-Soviet split in the 1960s to gain economic and military aid from both countries without being dominated by either.

In the recent international dispute over its nuclear programme, North Korea used bluff and intimidation to undermine regional support for a US policy of confrontation, forcing Washington to make concessions.

Analysts believe Pyongyang now hopes to isolate Seoul from its US ally, in the way South Korea successfully weakened Russian and Chinese support for North Korea in the early 1990s by offering economic investments. The goal of the new North Korean diplomatic strategy is to force withdrawal of 37,000 US troops based in South Korea by persuading Washington to sign a peace treaty formally ending the 1950-53 Korean war.

To this end, Pyongyang has already withdrawn from the military armistice commission, which supervises the 42-year-old truce. North Korea claims the South should not be a signatory to any peace treaty since it refused to sign the 1953 armistice.

South Korea, worried it is losing influence over events, is seeking resumption of dialogue with the North, suspended for the past two years because of the dispute over Pyongyang's nuclear programme.

Seoul wants to negotiate with Pyongyang on economic co-operation and implementing their 1991 non-nuclear pact, which would enable South Korea to hold independent nuclear inspections in North Korea. These measures would provide South Korea with more leverage in guiding developments in the North.

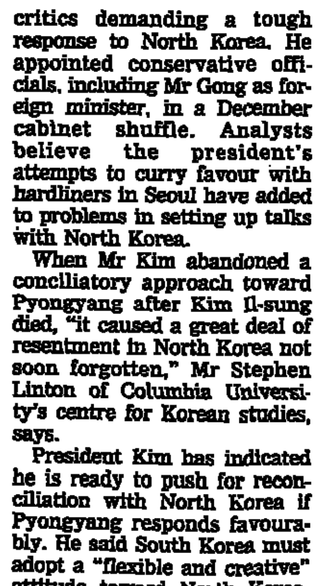
North Korea agreed to talks with South Korea as part of its nuclear agreement with the US, but has since appeared reluctant to engage in them. South Korea's President Kim has said dialogue with North Korea may have been delayed as Mr Kim Jong-il consolidates power following the death last July of his father, Kim Il-sung.

Many analysts predict Mr Kim Jong-il will assume formal leadership of North Korea in the spring.

Seoul has indicated it may not support the US-North Korean nuclear accord if inter-Korean talks do not occur and if Pyongyang refuses to allow South Korea to supply the safer light-water reactors due under the agreement.

The South Korean president is under pressure from conservatives to get tough on the nuclear agreement; the issue threatens the unity of the ruling Democratic Liberal party. Disagreements over the nuclear issue led to the recent resignation as DLP chairman of Mr Kim Jong-pil, a prominent figure in the former military government, who is expected to form a new right-wing party next week.

Mr Kim has tried to appease critics demanding a tough response to North Korea. He appointed conservative officials, including Mr Gong as foreign minister, in a December cabinet shuffle. Analysts believe the president's attempts to curry favour with hardliners in Seoul have added to problems in setting up talks with North Korea.



President Kim: resentment

When Mr Kim abandoned a conciliatory approach toward Pyongyang after Kim Il-sung died, "it caused a great deal of resentment in North Korea not soon forgotten," Mr Stephen Linton of Columbia University's centre for Korean studies, says.

President Kim has indicated he is ready to push for reconciliation with North Korea if Pyongyang responds favourably. He said South Korea must adopt a "flexible and creative" attitude toward North Korea, suggesting Seoul is willing to compromise.

He has also emphasised that any attempts by North Korea to weaken US support for Seoul are futile, referring to repeated assurances by President Bill Clinton that the US is committed to South Korea's security.

The US decision on liaison offices will test whether President Kim's expressions of confidence in Washington are justified.

ASIA-PACIFIC NEWS DIGEST

E Timor leader backs UN talks

Mr Jose Ramos-Horta, the exiled East Timorese leader, said in London yesterday he would be prepared to take part in UN-sponsored talks on the future of the territory annexed by Indonesia in 1975. But he said the only talks that would lead anywhere were direct negotiations on East Timor's political status between backers of independence and the government of President Suharto. Mr Boutros Boutros Ghali, UN secretary-general, has proposed talks among all interested Timorese parties, including those who favour integration with Indonesia. Mr Ramos-Horta said abuse of human rights had increased in East Timor since the Apec trade meeting in Jakarta last November. However, armed resistance to Indonesia in the territory was now minimal. Mr Ramos-Horta said he would meet Mr Alastair Goodlad, a UK Foreign Officer minister today, and urge him to put pressure on Mr Suharto to release Mr Xanana Gusmao, the imprisoned rebel leader, and commence a dialogue with him. *Peter Montagnon, Asia Editor*

China rights record disappoints

The US State Department conceded yesterday that China's human rights record did not improve last year in spite of the US policy shift delinking trade preferences and domestic repression. Its annual human rights report to Congress condemned the Chinese practice of "arbitrary and lengthy incommunicado detention, torture and mistreatment of prisoners" and curbs on civil liberties in Tibet. Vietnam, with which the US is upgrading diplomatic ties, and Indonesia, visited by President Bill Clinton last year, were singled out for restraints on freedom of expression. The report, also critical of rights abuses in Russia, Serbia and Mexico, may give ammunition to congressional opponents of deeper US commercial links with Asia's more authoritarian states. *Jurek Martin, Washington*

■ The US congressional ban on aid to Pakistan is a "blunt instrument" that is hurting rather than helping efforts to avert a nuclear arms race between India and Pakistan, Mr William Perry, US defence secretary, said in a speech in New York. *AP-DJ, Washington*

Son of Marcos runs for Senate

The son of the late Filipino strongman Ferdinand Marcos and a former renegade army officer who launched several coup attempts entered the race yesterday for the Senate in May elections. About 1,000 supporters and government employees jammed the halls of the election office as Mr Ferdinand "Bongbong" Marcos Jr submitted his certificate of candidacy. Four hours later former Lt Col Gregorio "Gringo" Honasan registered. He was a key figure in the 1986 revolt against the elder Marcos, which touched off the revolution that swept Mrs Corazon Aquino into office. But he turned against Mrs Aquino and led at least three coup attempts against her. *AP, Manila*

Light cast on royal 'insult'

A Frenchman who allegedly criticised Thailand's royal family while on a Thai Airways international flight in December is expected to be tried on charges of *lèse majesté*. Mr Lech Thomas Kissielewicz was said to have been angered when crew members refused to let him turn the light above his seat on because Thai Princess Somsawali was asleep in a nearby seat, and then criticised the monarchy. Police arrested Mr Kissielewicz when the flight landed in Bangkok. He was detained for two days before being released on Bt400,000 ($16,000) bail. *AP, Bangkok*

■ New Zealand recorded a current account deficit of NZ$1.65bn (US$1.06bn) in the September 1994 quarter, Statistics New Zealand said yesterday. On an unadjusted basis the result was a deterioration of NZ$1.26bn from the revised June quarter result. Between June and September imports rose by NZ$714m dollars and exports fell NZ$595m. *AFP, Wellington*

France to push workers' rights in WTO

By Guy de Jonquières and Robert Taylor

France is to press its EU partners to support a campaign in the World Trade Organisation and other inter-government bodies to link workers' rights and labour standards with the conduct of international trade.

Officials in Paris said the initiative was a priority of France's EU presidency in the first half of this year. It aimed to encourage abolition of forced and child labour, end discrimination at work, and promote trades union rights and free collective bargaining.

The proposal, details of which have still to be published, could revive a dispute on an issue which last year bitterly divided members of the General Agreement on Tariffs and Trade. Though WTO members are free to raise the issue, many countries see it as thinly-veiled protectionism.

France's proposal drew fire yesterday from Mr Michael Portillo, the UK employment secretary. He vowed to resist any attempt to impose social standards on developing countries which, he said, lacked the money to match those common in the west.

He said he supported high labour standards and respect for human rights, but said: "It is not for developed countries to punish other countries for failing to achieve the social standards they cannot yet have."

Mr Portillo said social clauses would raise costs in poorer countries and "would deny them market access, condemning the world's poor to perpetual poverty". But French officials expressed confidence that Mr Portillo would drop his criticisms once the proposal was published as a memorandum to be discussed by the EU social affairs council on March 27.

The officials said they wanted to prevent countries from enjoying unfair competitive advantages through lower costs due to inadequate labour standards. They said President François Mitterrand, his government and French employers and unions were firmly united on the issue.

The purpose of the planned memorandum was to tackle the issue directly in an effort to forge a common EU position in the WTO, the Organisation for Economic Co-operation and Development and the International Labour Organisation.

The French officials said the memorandum would put forward general ideas and stop short of calling for the use of trade sanctions against countries with weak labour standards.

However, they said there was a "direct link" between trade and labour standards and suggested that it might be possible to use the WTO's new disputes settlement procedures against offending countries.

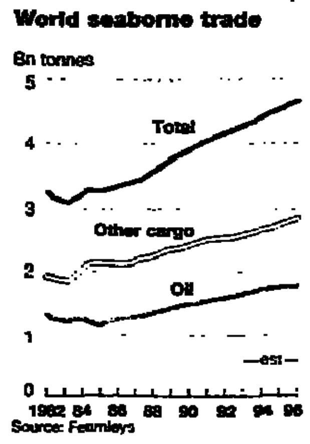
They claimed the proposal had already drawn broad support from employment ministers in Germany, Spain, Italy, Belgium and the Netherlands.

The initiative is part of a wider campaign by the French government to develop what it calls "an authentic European social model".

This would include provisions for participation by employers' and workers' representatives in drafting EU social legislation, closer EU co-operation on the link between work organisation and an ageing labour force and a five-year European programme for vocational training.

World seaborne trade at record

By Karen Fossli in Oslo



The volume of world seaborne trade rose to a record 4.475bn tonnes in 1994, an increase of 3.1 per cent or 136m tonnes over 1993, when it grew by 2.8 per cent, according to Fearnleys, the Oslo-based international shipbroker. Volume has increased steadily since 1983, when it was 3.09bn tonnes. Measured in tonne-miles, seaborne trade increased by 2.8 per cent last year to a record 19,532bn tonne miles.

Official world trade figures are price-deflated value figures, compared with Fearnleys' data on volume. Seaborne trade volumes are heavily dominated by low-value commodities rather than manufactured high-value goods, which are estimated to have increased faster than trade in raw materials in 1994.

Oil trade rose less than expected in 1994 primarily because of the pricing strategy pursued by the Organisation of Petroleum Exporting Countries (Opec), Fearnleys said. Nevertheless, crude oil shipments rose to 1.38bn tonnes from 1.356bn tonnes, mainly because of growth in areas outside the Middle East Gulf region.

Oil product shipments rose to 375m tonnes from 358m tonnes, with large increases in imports by South East and East Asia and growing imports by the US.

Dry bulk shipment volumes were mixed in 1994. The volume of five big dry bulk commodities rose by 2.2 per cent after increasing 0.3 per cent in 1993. Total dry bulk trade volume increased by about 3.5 per cent last year.

Fearnleys said raw material shipments to the steel industry rose sharply because of strong demand in East Asia and good export opportunities in other steel-producing countries.

Iron ore shipments rose to 380m tonnes in 1994 from 354m tonnes, and coal shipments to 370m tonnes from 367m tonnes.

Intelsat Indian lease deal

By Shiraz Sidhva in New Delhi

The International Telecommunications Satellite Organisation (Intelsat) has signed an agreement with the Indian Space Research Organisation (ISRO) to lease part of India's Insat-2E satellite to meet its growing requirements in the Asia-Pacific region.

This is the first time Intelsat has leased capacity on a satellite it does not own. The Washington-based inter-government co-operative has 135 member nations and has launched 22 satellites. Intelsat will pay $100m over 10 years starting in January 1998 to lease 11 36MHz transponders on the Indian satellite system Insat-2E series, scheduled for launch and deployment in the last quarter of 1997.

The agreement is a boost for India's 30-year-old space programme, which is only now beginning to reap financial dividends. Antrix Corporation, ISRO's corporate front, recently won a contract from Inmarsat, the international maritime satellite communications body of 67 countries, for a hand-held satellite phone system using low-earth-orbit satellites.

Indian officials gave details of another contract, between the government and Earth Observation Satellite Company. Worth $750m-$1bn, it will allow the US company to market data from all satellites in India's IRS (Indian Remote Sensing) series to be launched between now and 2005.

The Insat-2E satellite combines meteorological and communications capabilities and will be placed at 83 degrees east, with a footprint extending from Australia to Russia and from Japan to central Europe. The satellite will have an orbital manoeuvrable life of 12-14 years. India is Intelsat's 10th largest shareholder, with a share of 2.1 per cent.

HK talks with Satelindo

By Manuela Saragosa in Jakarta

Two Hong Kong-based broadcasters have approached PT Satelit Palapa Indonesia (Satelindo), an Indonesian satellite telecommunications company, following the destruction last week of China's Apstar-2 satellite.

NBC International of the US and Hong Kong's TVB International had leased transponders on the Hughes Aircraft-built Apstar-2 satellite which was destroyed in an explosion last week.

The two broadcasters have begun talks with Satelindo to use its Palapa C-1 transponders for their Asia Pacific broadcasts. NBC International was initially scheduled to start transmitting from Hong Kong in May this year.

Satelindo, set up two years ago, is jointly owned by PT Telkom, the state-owned telecommunications company, PT Indosat, the satellite telecommunications company listed in Jakarta and New York in October last year, and PT Bimagraha Telekomindo. Bimagraha is owned partly by the Bimantara Group, which is controlled by Mr Bambang Trihatmodjo, one of President Suharto's sons. Mr Trihatmodjo is on Satelindo's board of commissioners.

Twenty-one companies from nine countries have already signed up to use Palapa C-1's transponders, including CNN, Viacom, Turner Broadcasting, Home Box Office, TNT Cartoon and ESPN, a sports channel.

The Palapa C-1 is being built by Hughes Communications International and scheduled for launch by the European space consortium Arianespace in October this year.

Palapa C-1's satellite cover, or footprint, will stretch from Iran to Vladivostok and south to Sydney and New Zealand.

Japanese angry at US steel ruling

By Michiyo Nakamoto in Tokyo

Japan's specialist steelmakers yesterday reacted angrily to a ruling by the US International Trade Commission that Japanese imports of stainless steel bars are harming US industry.

On Tuesday, a US trade panel cited Japan, India, Brazil and Spain for selling stainless steel bars in the US at unfairly low prices, in a ruling that will lead to punitive tariffs for the imports.

Italy was also accused, but cleared, of dumping.

The ITC ruling means anti-dumping duties will be imposed on imports from those countries to protect US manufacturers.

A complaint was filed in December 1993 by the Specialty Steel Industry and the United Steelworkers of America union.

Daido Steel, the world's largest all-round manufacturer of specialty steel, yesterday said the ITC ruling was "unjustified". Under the ruling, duties of 61.47 per cent will be levied on Japanese stainless steel bars.

"It is regrettable that orderly exports to the US by Japanese makers over many years were not recognised in a fair manner," Daido Steel said. The prices of Japanese product are among the highest for imports and at a similar level to prices for the products of US mills, it noted.

Japanese makers, which exported 14,626 tonnes of stainless steel bars in 1993, have generally halted exports of the product to the US.

WORLD TRADE NEWS DIGEST

Boeing to cut jobs as orders fall

Boeing, the US aircraft maker, yesterday said it had not decided how many jobs would be cut as a result of falling orders from airlines. Boeing's statement followed a report that the company was about to announce a cut of 7,000 jobs and a further fall in the production of 737 and 757 jets. Mr Frank Shrontz, chairman, said last month the group's jet deliveries were likely to fall from 270 in 1994 to 230 this year. This compares with a 1993 delivery figure of 330.

Mr Shrontz said: "Planned production rates will continue to be adjusted as necessary to match customer requirements. Unfavourable operating results being experienced by certain US airlines may result in further selective production rate reductions." Boeing has sharply reduced employee numbers over the past few years. During 1993, they were cut by 1,800 to 125,500. By the end of last year, employee numbers had fallen further to a little over 117,000.

Although there has been an improvement in the financial performance of some airlines, carriers in the US and Europe are still experiencing difficulties. USAir said last week it was deferring the delivery of eight Boeing 757 aircraft and last month Air France said it would cancel orders and options on several aircraft. *Michael Skapinker, Aerospace Correspondent*

Nokia choosing new site

Nokia, the Finnish telecommunications group second to Motorola as a supplier of mobile phones, is poised to choose between Scotland, Ireland and Italy as the site for a factory to build cellular phone base stations. Nokia makes base stations – local units which receive and transmit transmissions from mobile phones – in Camberley in the UK and in Finland. Electronics Times magazine reported that Scotland and Ireland were shortlisted because of language and a workforce qualified in electronics technologies. No figure was announced for investment, a decision on which is expected soon.

● Sony, the Japanese consumer electronics company, has chosen its Colmar plant in France as the production site for digital mobile phones in Europe. The plant makes CD players, videorecorders and camcorders. *Alan Cane, London*

■ Japanese parallel importers of ski equipment yesterday filed a law suit against Nordica Japan, the Japanese arm of the Italian sports equipment maker, for obstructing parallel imports of Nordica ski boots by extending its patent rights. Japanese customs officials approved Nordica's request for a ban on parallel imports, which do not go through the official importing route approved by the Italian company, of its ski boots on the grounds of patent infringement. The company holds patents on the boot buckles, which the Japanese subsidiary holds the rights to handle. Chiyoda Sports, a Tokyo sporting goods dealer, and its four affiliates said Nordica was inhibiting competition. *Emiko Terazono, Tokyo*

■ The US will stand by earlier assurances given to Australia over the implementation of export subsidies, Senator Bob McMullan, Australia's federal trade minister, said yesterday. Mr McMullan's comments followed talks with Mr Strobe Talbott, US deputy secretary of state, over the recent extension of US dairy export subsidies. *Nikki Tait, Sydney*

■ Rolls-Royce has won an engine order worth up to £50m from Austrian Airlines. Fokker 70, powered by Rolls-Royce Tay engines, will spearhead its new national fleet. *Reuter, London*

■ Kemira Chemicals, a unit of Kemira of Finland, will supply a FM35m water treatment plant to AO Aurat in Moscow. The contract is the first secured under a FM300m-FM400m letter of intent between the two companies. *AFX, Helsinki*

Crisis forces rethink at G7 meeting

By Peter Norman, Economics Editor

The group of seven leading industrial countries will consider equipping the world economy with better "early warning systems" to lessen the risk of crises like Mexico's.

According to British Treasury officials, this weekend's meeting of G7 finance ministers and central bank governors in Toronto will ask if the present procedures of the International Monetary Fund should be improved to detect problems in member countries before they get out of hand.

European members of the G7, in particular, have been alarmed at the speed with which Mexico's problems ballooned into a crisis that has required an unprecedentedly large international support package.

It is widely felt that the crisis could have been better handled by both the Mexican and US authorities. Linked to this is deep unhappiness at the way European and other non-American countries have been sucked into a rescue operation for what is regarded as a western hemisphere problem.

Mr Michel Camdessus, the managing director of the International Monetary Fund, will join the ministers and bankers from the US, Japan, Germany, France, Britain, Italy and Canada for talks that start tomorrow night with a working dinner and will continue on Saturday morning.

The surveillance role of the Fund will play a key part in the discussions. Mexico was not subject to intensive IMF scrutiny as the crisis gathered because it had no current programme with the IMF. Instead it participated in the normal "Article IV" surveillance consultations under which members' economies are scrutinised by the Fund management and other IMF members. The last Article IV consultations with Mexico were concluded at the end of February last year.

According to an account of consultations on Mexico in the 1994 IMF annual report, directors expressed some reservations about the economy but there was little to indicate a massive crisis in the making.

The directors expressed satisfaction with a narrowing of Mexico's current account deficit in 1993 though they also stressed the need for Mexico to lower its current deficit further to reduce the economy's vulnerability to a reversal of capital flows.

Only "some directors" were worried about Mexico's competitive position caused by a rise in the value of the peso. There was no explicit warning of what turned out to be Mexico's undoing: a seriously overvalued exchange rate and much short-term debt.

It is unclear what, if anything, the G7 will propose to improve surveillance and the world economy's early-warning system. British officials pointed out that political factors played a big part in Mexico's move towards crisis. The IMF has a limited ability to deal with such problems.

However, the officials also expressed satisfaction with Mexico's present economic reform plans, which they said were the key to solving the crisis. Mexico had a strong record of economic reform that justified large scale support for the country, they added.

It emerged yesterday that participation of the Bank for International Settlements in the $50bn (£31bn) international support programme for Mexico could eventually place a burden on taxpayers in some European countries, including Britain. The UK Treasury confirmed that it had at times in the past indemnified the Bank of England against loss from BIS bridging operations.

Because the details of BIS support were still being negotiated, it was unclear yesterday whether the Bank would be given indemnities in the Mexican case or whether Mexico would be able to supply collateral to cover the BIS financing.

Treasury moves to end concern over possible depletion of US intervention funds

Lenders flesh out formula for Mexico plan

By George Graham in Washington

US Treasury and International Monetary Fund officials were still scrambling yesterday to flesh out the details of the $50bn (£32bn) international rescue package they put together in the small hours of Tuesday morning to pull Mexico out of its financial crisis.

Both the $20bn promised by the US and the $17.76bn pledged by the International Monetary Fund, not to mention $10bn on offer from the Bank for International Settlements, were unprecedented in their size and nature.

"I'm confident we never did anything remotely approaching this, either in size or in maturity," said Mr Charles Dallara, a long-time Treasury official who is now managing director of the Institute of International Finance, a Washington-based bankers' group.

To arrange the US contribution, President Bill Clinton had to use his executive authority to draw on the Exchange Stabilisation Fund, a Treasury account set up in the 1930s to handle currency market intervention.

Although the Exchange Stabilisation Fund has been used before to help other currencies, including the Mexican peso in 1982, to set aside $20bn from a fund that totals around $25bn – even though it can draw another $11bn from the US's reserves held at the IMF – has raised concerns about the possible depletion of the US's capacity to intervene in foreign exchange markets for other purposes.

Treasury officials insist that all the foreign exchange held in the fund will still be accessible for intervention, and that they won't have to sell or buy any currencies to make the $20bn available to Mexico, in the form of either swaps or loan guarantees.

"We thought of this ourselves," said Mr Robert Rubin, Treasury secretary.

Mr Fred Bergsten, another former Treasury official and head of the Institute for International Economics, a Washington think-tank, explained that the US would not lose its holdings of foreign currencies, but there would be book-keeping transactions to move these currencies to the Federal Reserve in exchange for dollars to be used to support Mexico. If the foreign currencies were needed for intervention, the Fed could make them available again through a swap. In addition, the US has reciprocal swap arrangements estimated to total over $50bn with the central banks of other big industrialised countries.

Mexico would pledge oil revenues as security for US credits – as had been planned for the $40bn of loan guarantees Mr Clinton originally proposed – and will pay a fee expected to be between 5 per cent and 12 per cent.

The IMF's $17.76bn will be made available in the form of a standby credit. This is the Washington-based institution's usual formula: a loan conditional on agreement to a stringent programme of economic reforms.

Drawings on a standby credit are usually limited to the size of a country's IMF quota – determined in relation to the size of its economy – each year for three years. This loan will total about five times Mexico's quota in the space of 18 months.

The IMF has had to rely on an "exceptional circumstances" clause in its statutes allowing normal borrowing limits to be overridden. In addition, it will pass the hat in an unprecedented ad hoc arrangement to try to recoup the additional $10bn from member countries.

Ortiz predicts growth rate falling below 1%

By Leslie Crawford in Mexico City

Mexican finance minister Guillermo Ortiz said yesterday that economic growth might fall below 1 per cent this year as market instability and high interest took their toll.

Mr Ortiz told a Mexico City radio station he expected 1995 growth of 1 per cent "or maybe less", reinforcing a view widely held among economists that the 1.5 per cent growth forecast contained in the country's economic programme agreed with the International Monetary Fund was too optimistic.

The $50bn (£31bn) financial support package for Mexico appeared to have eased substantially the country's immediate liquidity crisis yesterday. But economists said the two-month-old government of President Ernesto Zedillo had a long way to go before it was out of the woods.

Mexico's manufacturers' association, Canacintra, yesterday demanded a new exchange rate policy to guarantee a stable and convertible peso. "After three traumatic devaluations, a new mechanism must be created to protect our currency from speculative attacks that generate monetary crises."

Some economists believe the floating exchange rate regime may also make it harder to contain inflation and provide a credible framework for financial policy. Without an exchange rate peg, the onus falls on the central bank to limit the expansion of credit. Its big credit expansion last year is seen as an important cause of the devaluation.

Mr Ortiz, however, said the government would allow the peso to continue to float at least until the markets stabilised. "We want a realistic exchange rate; at present the peso is too undervalued," he said.

The floating currency may make it harder to repress wage demands. Attention will thus focus on wage negotiations that begin this month between the government and labour unions.

High inflation and low – or no – growth will do nothing to enhance Mr Zedillo's already low popularity. He may face further criticism because of the conditions likely to attach to the support package.

Even if the programme works according to plan, some Mexicans doubt foreign investors will return in a hurry. "The onus is now on President Zedillo's government to rebuild

Ortiz: peso "undervalued"

confidence and adopt a plan that goes beyond the present emergency," says Mr Alberto Aguilar, an economist writing in the daily La Reforma.

"Mexico needs measures to increase its domestic savings, as it is unlikely that we will see the levels of foreign portfolio investment or even direct foreign investment of recent years."

Clinton's rescue exposes political fault lines

By Jurek Martin in Washington

Rarely have the fault lines in contemporary US politics been exposed so sharply as in the reactions over the past 24 hours to Mark Two of President Bill Clinton's package of assistance to Mexico.

Almost universally the establishment – in the forms of the administration itself, the congressional leadership, former presidents, cabinet ministers and leading newspapers – has endorsed bypassing Congress in order to come to Mexico's rescue.

Equally uniform has been the move's denunciation by the populists of left and right and by the strong new strain of isolationists – Ross Perot and Pat Buchanan, Senators Phil Gramm of Texas and Jesse Helms of North Carolina, Congresswoman Marcy Kaptur of Ohio and many Republican freshmen in Congress.

Yesterday newspapers as disparate as the conservative Wall Street Journal and the moderate-to-liberal New York Times ran editorials agreeing that President Clinton was left with little choice. The Times said "there was no time left to navigate a bill through Congress", the Journal that Mr Clinton had braked "a crisis that appeared headed for the cliffs".

Mr Martin Feldstein, chairman of the council of economic advisers under former President Ronald Reagan and no friend of the current administration, wrote in the Journal of "a fine piece of foreign policy". It would have been wrong, he said, to impose conditions on Mexico, probable if Congress had been in on the act, that would have hurt its sovereignty and economy.

In contrast, there was Mr Perot telling Congress on Tuesday that the new package "won't work either" and Mr Gramm complaining about the bail-out of Wall Street financiers and an imprudent foreign government.

Even Congressman Newt Gingrich, the Speaker, kept referring to public opinion polls, so much the grist to the populist mill, that invariably showed 70-80 per cent opposed to exposing the US taxpayer to Mexican risk.

It is possible, as Mr Clinton said on Tuesday, that with time Congress might have approved the $40bn (£25.6bn) loan guarantee programme. That would have saved his administration some embarrassment, for it was under fire from Mr Gingrich, Senator Robert Dole, the majority leader, and some prominent Democrats for having failed to make the case effectively to Congress.

But there was little evidence, beyond pro forma expressions of support, that the congressional leadership of both parties was working that hard to deliver the goods speedily. Mr Gingrich seemed reluctant to entertain any diversion from his domestic legislative agenda or to alienate the 73 Republican House freshmen who are his revolutionary vanguard.

The best efforts of Congressman Jim Leach, chairman of the banking committee, and the administration to write the necessary legislation were constantly bedevilled by the poisonous atmosphere that now characterises relations between Republicans and Democrats in the House.

Circumventing Congress has longer-term risks for Mr Clinton's foreign policy. It may stiffen legislative determination to slash budget outlays on foreign aid, UN peacekeeping and a fistful of other issues. Most important of all, his unilateral action amounts to the acknowledgement that it is easier to talk about bipartisan foreign policy in the current climate than to achieve it.

Death focuses Caribbean mind

Canute James on a growing debate about capital punishment

Applicants are lining up at the office of Jamaica's director of correctional services for a post which has been vacant for seven years. In seeking the job of hangman, applicants have been encouraged by the government's determination that the execution of convicted murderers will resume soon.

Although a stay of execution has been granted for a convict scheduled to hang last Thursday, the Jamaican government's decision has fuelled a simmering and emotional debate in the Caribbean about capital punishment.

Governments and the administrators of judicial systems in the region are caught in the middle. On one side are international and regional advocates of the abolition of capital punishment, and on the other are the governments' constituents who passionately argue that capital punishment is the only way to deter criminals and reduce the fast rising rate of violent crime.

The arguments have been raging in Trinidad and Tobago after the recent hanging of a man convicted in 1989 for murdering an airline pilot. It was the first hanging in the country in 15 years. Local lawyers contend that the convict was hanged just before a stay of execution could be granted by the UK Privy Council, and five days before the completion of five years on death row, when his sentence would have been commuted to life imprisonment.

Some convicted murderers in the Caribbean have obtained a reprieve on the basis of a ruling by the Privy Council 13 months ago that two men on death row in Jamaica for more than five years should have their sentences commuted to life imprisonment. About 50 sentences were commuted in Trinidad, and some are being taken off death row in Jamaica.

The Jamaican government's plan follows an unsuccessful legal challenge to its reclassification of convicted murderers. Those who committed "capital" murders (of policemen and witnesses in court cases) will be executed, while "non-capital" murderers (including those who killed in crimes of passion) will serve life sentences.

"The government is unwavering in its intention to hang convicted murderers, despite the calls for an end to the death penalty from human rights advocates," said Mr Percival Patterson, Jamaica's prime minister.

There is concern within the legal fraternity in the region about the ability of the judicial system in some countries to complete the processes of appeal within five years. A sudden reduction in the time between conviction and execution can weaken the ability of the judicial systems to deliver justice, according to lawyers. There are frequent indications of deficiencies in the legal system, legal aid facilities are poor, and key witnesses are frequently intimidated and sometimes murdered despite government programmes to protect them.

"The worst consequence of the Privy Council's ruling is that the administrators of justice in the Caribbean try to expedite the hanging of convicted murderers within five years of sentencing – in a justice system which is sometimes flawed and in which errors are made," said a leading Jamaican lawyer.

Public opinion in the Caribbean appears to favour capital punishment. There has been a rise in the incidence of violent murders in Trinidad and Tobago over the past year, fuelling public appeals for action from the government.

The debate in Jamaica is becoming more animated, with the number of murders last year rising to 688, 34 more than in 1993. But speeding the process of appeal to meet the five-year deadline will be a problem for some governments. Eliminating entrenched inefficiencies in judicial systems will require significant sums of money.

More money will also be needed by Barbados, Jamaica and Trinidad and Tobago, which plan to establish a regional court of appeal to replace the Privy Council, following growing concern about the governments' increasing inability to carry out capital punishment.

AMERICAN NEWS DIGEST

US bank deposit insurance move

The Federal Deposit Insurance Corporation this week proposed slashing the premiums it charges healthy US banks for deposit insurance. In a proposal put out for 60 days of comment, the FDIC suggested cutting the premium for banks rated as well capitalised and well managed – around 90 per cent of all insured banks – from 23 cents per $100 of deposits to 4 cents. But banks regarded as posing a risk of default would still have to pay a much higher 31 cents premium. The proposal would cut overall premium payments by an estimated $4.5bn a year, and widen the gap not only between strong and weak banks, but between banks and savings and loan institutions, whose insurance fund is much emptier.

The bank insurance fund managed by the FDIC, which was depleted by a string of bank failures in the 1980s and early 1990s, has now risen above $19bn and is expected to reach its legal target of $1.25 for every $100 of deposits insured sometime between May and July. The savings and loan insurance fund is not expected to reach the same target ratio until 2002. *George Graham, Washington*

Venezuelan bank rescue plan

Venezuela's banking crisis took a new turn yesterday when the government-dominated Financial Emergency Board decided on a plan to save one of the country's largest commercial banks from an increasingly serious run, and to establish special programmes to aid four smaller banks. The plan includes the government takeover of three relatively small banks, a buyout of a large bank by a group of other Venezuelan financial institutions, and a government-mandated recapitalisation plan for another smaller bank. The takeover of these three banks means that the Venezuelan government has forcibly taken direct control of 18 banks since January 1994, out of a total of more than 40 commercial banks.

A group of Venezuelan banks headed by Banco Provincial, the country's largest commercial institution, will buy 51 per cent of Banco Union, Venezuela's third largest in terms of assets. Banco Union has suffered in recent months from waves of rumours and nervous withdrawals. The three other banks, Italo Venezuelano, Principal and Profesional, will be taken over by the government and run by a group of state-owned banks. *Joseph Mann, Caracas*

Doubt over Cardoso vote

Brazil's new Congress took office yesterday with attention focused on whether President Fernando Henrique Cardoso can gather sufficient support for planned constitutional changes. He is backed by a broad alliance of parties with nearly 400 seats, suggesting he has the three-fifths support for constitutional reforms many analysts say are needed to modernise the tax and social security system and increase foreign competition in the economy. But party loyalty is weak and his support on controversial reforms is probably much lower than the numbers suggest. *Angus Foster, São Paulo*

Peru poll campaign on hold

Peru continued to refuse a ceasefire with Ecuador yesterday following recent border clashes. However, the conflict has brought a tacit agreement between presidential candidates to put a virtual halt to electoral campaigning in the run-up to general elections scheduled for April 9.

The dearth of official information coming out of Peru has converted Mr Javier Pérez de Cuéllar, former UN secretary-general and candidate for the presidency, into a sort of unofficial spokesman for his country. Yesterday, he claimed "the total and unconditional withdrawal of foreign military from our soil" must be a Peruvian priority. Mr Efrain Goldenberg, Peru's foreign minister, meanwhile, admitted that some Ecuadorean troops were probably still inside Peruvian territory, though "not in organised form." *Sally Bowen, Lima*

A fence that may make better neighbours

Separation may prove the only remaining route to a Palestinian-Israeli peace, writes Julian Ozanne

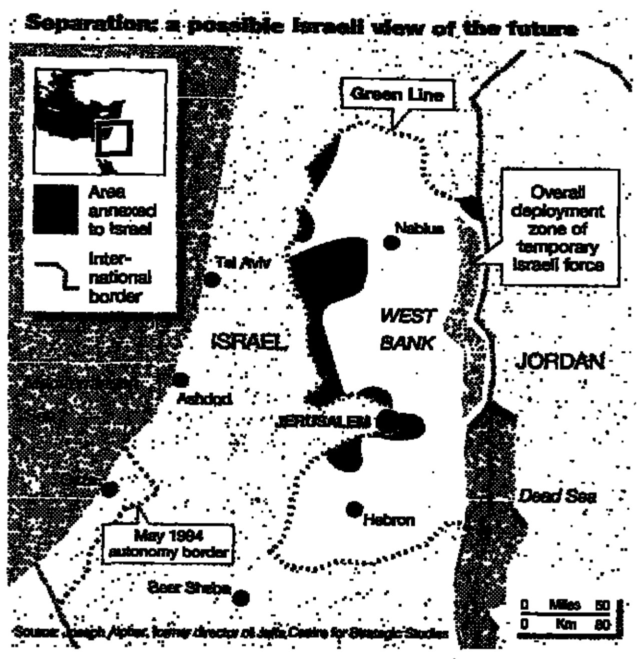
Along the border between Israel and Gaza, construction workers are erecting a 3m barbed wire electric fence to separate Arab and Jew.

If Mr Yitzhak Rabin, the Israeli prime minister, has his way, construction of a similar fence, to be patrolled by police and dogs, will be started within weeks in the occupied West Bank to divide Israeli from Palestinian.

Since last October's suicide bombing of a bus in Tel Aviv, Mr Rabin has increasingly captured the Israeli mood by advocating what historian Meron Benvenisti has called "the dream of separation". The bombing – near Netanya by two Palestinian Islamic extremists, which left 22 Israelis dead – turned the doctrine of separation into a national clarion call.

"We want to reach a division between us and you," Mr Rabin said after the attack. "We do not want the majority of the Jewish population, 98 per cent of whom live inside sovereign Israel and united Jerusalem, to be vulnerable to terrorism."

Separation: a possible Israeli view of the future



Source: Joseph Alpher, former director of Jaffa Centre for Strategic Studies

Mr Rabin then set up a ministerial committee to bring plans to the cabinet this month for separation including the possible construction of a 320km fence at a cost of about $230m (£147m).

Both sides say that the call for separation is an admission of defeat in the vision of an Israeli-Palestinian peace, a recognition, they say, that mutual co-existence of Palestinian and Jew is not feasible under present conditions and that there has been no fundamental social or psychological reconciliation between the two peoples.

Yet, it may turn out that separation proves to be what saves the peace process from collapse. In Israel, where personal security is the paramount issue, the popularity of separation has been mounting over the past four or five years. Israel's repeated closures of the occupied territories in response to Palestinian attacks proved to many Israelis that they were safer when Palestinians did not cross the borders to work. The closures also shattered a long-held myth that the Israeli economy was dependent on cheap Palestinian labour.

"In the past eight months the peace process has moved from integration to separation, from marriage to divorce," says Mr Joseph Alpher, a leading Israeli strategist. "Israelis are saying if peace means terrorism we don't want it. The only way for Rabin to keep the process moving is to package it as separation."

A fence surrounds a Jewish settlement in the Gaza Strip – but soon the whole Strip will be fenced off as "the dream of separation" is pursued by Israel *Reuter*

On the Palestinian side, separation has also been part of the national dream so long as it means an independent Palestinian state and the full withdrawal of Israeli occupation forces.

Yet the peace process intentionally avoided it by establishing an interim five-year transition period during which the two sides would try to live together until a permanent solution was negotiated.

Israel insisted on side-stepping separation because it allowed Mr Rabin to avoid deciding final borders, discussing creation of an independent Palestinian state or uprooting at least some Jewish settlements – a move likely to ignite political upheaval in Israel.

Yet the interim period has failed. Mr Rabin has been hesitant about moving to the long-delayed next stage of the process and to redeploy Israel troops out of the West Bank, saying he fears for the lives of the 140,000 Jewish settlers living there. In the vacuum Palestinian extremists stepped up attacks on Israelis and sabotaged the process. The attacks and the gridlock in the process pushed separation on to the agenda.

But the problem with Mr Rabin's plan is its attempt to impose a new reality unilaterally. Palestinians fear the creation of a fence will establish a new border with annexation by Israel of large parts of the West Bank. Such a move would prejudice the final territorial shape of a permanent settlement and violate the peace agreement.

They say they are prepared to negotiate separation in return for independence and statehood but they describe the present situation of separation under occupation as "divorce with wife beating".

"For us the aim of the peace process has always been to separate but Rabin's plan is not separation but suffocation," said Mr Saeb Erekat, Palestinian "minister" for local government. "If Israel wants separation, fine, let them take their settlers out of our land and get their soldiers off our crossing points to Egypt and Jordan. Separation does not mean transferring me and my people into a concentration camp. It means Israel getting out for good and leaving us alone."

Mr Rabin has already outlined a vague principle of how the future map might look between two separate entities. He has said he will not withdraw to the borders that existed before the 1967 Arab-Israeli war, would keep Jerusalem as Israel's united and eternal capital and would see the Jordan river as the country's natural security boundary.

On the economic front Professor Ephraim Kleiman of the Hebrew University says physical separation does not necessarily mean economic separation or abolishing the Israeli-Palestinian customs union.

The costs to Palestinians could be considerably mitigated by measures such as establishing industrial parks on the borders and better organisation of sub-contracting. And, he says, separation should not impede trade so long as both sides can resist pressure from interest groups to put up tariff barriers once a frontier is established.

Algiers bomb 'was aimed at police torture centre'

By Roula Khalaf

The explosion in the heart of Algiers on Monday was the work of Islamist extremists targeting the central police headquarters, a leading representative of Algeria's Islamic Salvation Front (FIS) said yesterday.

"The mujahideen never meant to harm civilians," Mr Anwar Haddam, president of the FIS's parliamentary delegation to Europe and the US, said in a telephone interview, referring to Islamist extremists. "The bomb was meant for the Commissariat central, which is known as a torture centre. We send our deep condolences to the families of the victims."

The car bomb was the most ferocious attack by extremists battling the military-backed government since the regime in 1992 cancelled elections the FIS had been poised to win. It exploded on a bustling Algiers street, outside the police headquarters and near the capital's main post office and train station, and left 42 people dead and 286 injured, many of them women and children. According to security officials, the car contained more than 100kg of explosives and may have been driven by a suicide bomber.

No group has officially claimed responsibility for the bombing. The only other reaction from Islamist groups came from Mr Ali Djeddi, another FIS leader in Algiers, who told an Algerian newspaper that he was outraged by the attack and called for an investigation.

Mr Haddam, who lives in Chicago, said there were many casualties among the police force as well as significant damage to the police building. While insisting that the attack was part of the "armed struggle" against the government and should not be considered an act of terrorism, he warned that "the armed struggle is continuing and will not stop until the military accepts the platform of Rome. We want people to focus on why the military is rejecting the platform."

Two weeks ago, Mr Haddam signed his name to the so-called Rome declaration, agreed by opposition parties, and calling on the government to enter into negotiations to establish an interim administration which could prepare for elections. The government rejected the Rome platform and is moving ahead with its own plans to hold presidential elections later this year.

The Armed Islamic Group (GIA) of Islamist extremists was at first thought to have accepted the platform based on a communique received by the press. But another, more reliable letter, condemned the opposition parties' moves.

Mr Haddam, however, insisted that both communiques are inaccurate and the GIA has not taken any position with regard to Rome.

INTERNATIONAL NEWS DIGEST

World Bank chief Preston has cancer

The World Bank yesterday announced that Mr Lewis Preston, its president, had been diagnosed as having cancer. The Bank has asked Mr Ernest Stern, who resigned two days ago as one of the three managing directors to move to J P Morgan, the Wall Street bank, to stay on for a month as acting president.

Mr Preston is 68, and was due to serve as World Bank president until 1996. But his health has been in question for some time and candidates for his succession have already started jockeying for position. The World Bank presidency is traditionally a US appointment, although other countries' approval is usually sought, while his opposite number at the International Monetary Fund has been a European.

Among those thought to be most keenly interested in the job is Mr Lawrence Summers, the undersecretary for international affairs at the US Treasury, who was previously the World Bank's chief economist. But Mr Summers does not command unalloyed affection in all the finance ministries of the world, and the US administration may be reluctant to face the prospect of winning Senate confirmation for his successor at the Treasury. *George Graham, Washington*

Boost for Beirut exchange

Revival of the Beirut Stock Exchange after an 11-year shutdown moved a step closer yesterday when the government approved nearly $1m (£630,000) to finance its reopening. A cabinet official said the government voted the L£1.5bn allocation at its weekly meeting.

Mr Gabriel Sehnaoui, the stock exchange chairman, said the money would be used to rent or lease a building and equip a computerised trading floor.

Mr Sehnaoui heads the 10-man stock exchange committee appointed last July to revive the Middle East's second oldest exchange, which shut down in 1983 during the civil war.

● A team of Lebanese security officials flew to Washington yesterday for talks with US authorities on security. Lebanon says the two-day talks, starting on Monday, will concentrate on security for travellers at Beirut airport and hopes they will lead eventually to lifting a 10-year US travel ban on the country. *Reuter, Beirut*

Iran studying gas pipeline

Iran said yesterday it had agreed with Turkmenistan to speed technical studies to build a $6bn (£3.8bn) pipeline to carry gas from the Central Asian republic to Europe via Iran and Turkey. Iranian President Akbar Hashemi Rafsanjani told Tehran radio the two states had agreed to expedite technical studies on the pipeline project, so they could rapidly move forward with construction work once financial deals were finalised.

The US which has a policy of containing Iran, is opposed to the project and would block international financing for it, the Washington Post reported earlier this month. *Reuter, Tehran*

Ghana reports fiscal surplus

Ghana's government ended two years of fiscal deficit with a small surplus in 1994 of cedis 117.7bn (£77.7m), about 2 per cent of gross domestic product, helped by a windfall from the Ashanti Goldfields flotation and strong earnings from Ghana's main export, gold, Mr Kwesi Botchwey, the country's finance minister said yesterday in his 1995 budget speech. But for the third successive year external creditors withheld some of their programmed loans to Ghana. Economic growth of 3.8 per cent was slower than forecast in 1994 while government spending fuelled 40 per cent growth in money supply, a 30 per cent rate of inflation and devaluation of the cedi by around 22 per cent. *Paul Adams, Accra*

Lloyd's soon to reveal further loss of £1bn

By Ralph Atkins, Insurance Correspondent

Lloyd's of London will announce another £1bn ($1.59bn) loss in May, taking total losses reported over recent years to about £8bn, according to figures published yesterday.

However, the loss, – which will cover 1992 under the insurance market's practice of reporting three years in arrears – looks set to mark a low point in Lloyd's troubles.

Figures compiled by Chatset, the Lloyd's analyst, suggest that by 1993 the market had returned to profit for the first time in six years.

The statistics highlight the challenge facing Lloyd's as it tries to return to long-term profitability. The 1992 losses will add to the financial pressures on many Names, individuals whose assets have traditionally supported the insurance market, making it harder for Lloyd's to meet solvency tests set by the Department of Trade and Industry. Final profits for 1993 will not be reported until next year.

Mr Charles Sturge, Chatset editor, said an out-of-court settlement of legal claims by lossmaking Names was "critical" to the survival of the market. He added that Lloyd's had to balance the interests of Names and corporate investors who are continuing to trade, while retaining the goodwill of Names who want to withdraw from the market.

Chatset said Lloyd's made a basic loss of £250m on 1992 underwriting, but losses from "old years'" policies – some dating back decades – would add about another £750m. It warned, however, that the £750m figure was not precise and may rise.

The heaviest losses were incurred by insurance syndicates writing non-marine policies which were hit by a $1bn cost from the Hurricane Andrew in the US in August 1992. Aviation syndicates also made losses, but motor and marine underwriters were profitable.

Chatset described 1993 as "an excellent year". It expects profits of about £800m before taking account of old years' claims. It also expressed optimism about the outcome for 1994.

Its upbeat outlook is echoed in a report by UBS, the investment bank, based on figures compiled by SBW Insurance Research, the Lloyd's syndicate analysts. This also predicts a profit of about £800m in 1993 and suggests 1994 profits will be in the range £480m to £692m before taking account of old years.

The Chatset and UBS figures suggest Lloyd's pretax profits may have reached about 10 per cent of the market's premium writing capacity in 1993. But if a decrease occurs in 1994 Lloyd's is unlikely to meet its target of 10 per cent over the underwriting cycle, set out in its 1993 business plan.

Leak threatens to drown Irish peace

The Northern Ireland peace process was still alive yesterday after the leak of an advanced draft of UK-Irish proposals for a lasting political settlement in the province.

But the governments' hopes of agreeing a joint position before involving Ulster's main constitutional parties in the negotiating process may well be dead.

That was the logic of yesterday's call by Mr James Molyneaux, leader of the moderate Ulster Unionist party, for the British government to open talks with the parties to "clear away the debris" of the "wrecked" framework concept.

As leader of Ulster's largest political party with nine MPs on whose support Mr John Major is heavily dependent, Mr Molyneaux is in a position of considerable power.

The two governments are likely now to have to reconsider their proposals on how a new north-south institution will be structured.

If they fail to do this, the UUP would almost certainly conclude that the government had stopped governing in the best interests of the United Kingdom and of Northern Ireland in particular.

In such circumstances, it would withdraw the parliamentary support of its nine MPs, leaving Mr Major at the mercy of the nine rebel Tory Eurosceptics and possibly triggering the collapse of his government.

But in spite of the fury of unionist reaction to the leak, insiders acknowledge that the UUP could probably be persuaded to tolerate an institutionalised north-south component to an overall settlement.

Not everything the leaked draft has to say on cross-border bodies can be construed as unwelcome to unionists.

Sir Patrick Mayhew, the Northern Ireland secretary, urged MPs to wait until a final version of the document had been agreed

In particular, the disclosure that no such body would be able to operate with executive powers without the agreement of a proposed Northern Ireland assembly will have helped to allay some of their worst fears.

But a proposal that participation in a north-south body would be "a duty of service" for departmental heads in an Ulster assembly may prove beyond the pale for the UUP.

Proposals for such a body to have a continuing role in helping to develop a joint approach to the European Union for the island of Ireland have also sparked strong concern.

Of course, London may not find it easy to convince Dublin of the need to reopen negotiations on an area of their joint proposals that was understood to have been – in essence – agreed. Mr Dick Spring, Irish Republic foreign minister, was clear yesterday that the two governments would not be "deflected from their work."

Mr Major's difficulties may be increased by the possibility that some in Dublin might welcome a sequence of events being set in train that could result in the election in the UK of a Labour government with a comfortable majority.

More on the two governments' intentions may become clear if today's scheduled meeting in Dublin between UK and Irish officials goes ahead as planned.

The leak appears to be of an advanced draft of the framework document which had begun circulating in the British and Irish governments by the start of last week. Some tens of people on each side are understood to have seen it.

The draft envisages a "north-south body involving heads of department on both sides duly established and mandated by legislation in both sovereign parliaments." This would "discharge or oversee delegated executive, harmonising or consultative functions as appropriate." Areas in which the body might assume executive responsibility could include "sectors involving a natural, physical all-Ireland framework." It would have a role in encouraging harmonisation across a broader range of policy areas.

The draft envisages a constitutional trade-off whereby Britain would amend or replace the Government of Ireland Act 1920 while Dublin would introduce and support constitutional changes reflecting "the principle of consent in Northern Ireland" so that no "territorial claim of right over Northern Ireland contrary to the will of its people is asserted".

It indicates that London would discharge its responsibilities in a way which "does not prejudice the freedom of the people of Northern Ireland to determine by peaceful democratic means its future constitutional status whether in remaining a part of the United Kingdom or in forming part of a united Ireland."

To add to Mr Major's difficulties, there were indications yesterday that this last pledge was prompting strong concern among Tory rebels.

David Owen

Sinn Féin, the IRA's political wing, was in little doubt yesterday about the origin of the leaks about the joint framework document which claimed that London and Dublin had agreed to new all-Ireland bodies, John Murray Brown writes from Belfast.

Speaking after the latest session of exploratory talks with British officials at Stormont, Mr Martin McGuinness, a member of Sinn Féin's national executive, said the leaks were "clearly coming from pro-unionist sources," and were aimed at disrupting the peace process.

Mr McGuinness declined to speculate on the contents of the framework accord, which is understood to be 95 per cent agreed, but he said both governments should now move to speedy publication.

Republicans nonetheless must be encouraged by suggestions the framework included provisions for all-Ireland bodies, which unionists complain amount to joint authority.

"Change isn't easy," Mr McGuinness said. "It's not easy for unionists, but there is universal acceptance that change must come because we have had nothing but failure here for 70 years."

Consumer lobby condemns detergent

By Roderick Oram, Consumer Industries Editor

The Consumers' Association said yesterday that said that some coloured clothes were weakened after they had been washed in Persil Power, Unilever's controversial detergent.

It demanded that Unilever put warnings on packets against using the product on coloured clothes. It said the company should publicise a compensation scheme for people whose clothes had been damaged by the product and should offer to exchange packets of Power for New Generation Persil, the replacement detergent to be launched soon.

Lever Brothers, Unilever's detergent arm, rejected the demands as "unnecessary and irrelevant". Current packages said that Persil Power was for regular use on whites and only occasional use on heavily soiled coloured clothes. Moreover, the company already offered a money-back guarantee.

But the association's tests have been largely overtaken by events. J. Sainsbury and Tesco, the two leading UK supermarket chains, are intend to take Persil Power off their shelves because of an expected lack of consumer demand once New Generation Persil arrives.

Analysts are expecting it to fade away rapidly even though Unilever says the current formula for Persil Power is safe to use as directed.

The association said, however, that it was still important to show the effects it believed Persil Power had. Its tests of two types of garment over had shown they faded more and were weakened further when washed in Persil Power than Ariel Ultra, made by Procter & Gamble.

It chose not to highlight the fading because that was a subjective and hard-to-measure effect. Tensile strength of garments washed in Persil Power was about about 30 per cent less than those washed in Ariel Ultra.

Monopolies commission to investigate fees charged in City

By David Wighton and Norma Cohen

The Office of Fair Trading plans to refer the system of equity capital raising in London to the Monopolies and Mergers Commission. Sir Bryan Carsberg, director-general of fair trading, wants the commission to examine whether fees charged by the City for underwriting share issues are too high and whether merchant banks advising companies face conflicts of interest. Any change to the system of fixed underwriting fees could have a profound impact on the City, threatening the profits of institutional investors and the independent merchant banks.

Some observers believe it could hasten consolidation among City firms and accelerate the trend towards US-style integrated investment banks, combining advisory and broking arms.

The Treasury is thought to support the OFT's move because of worries that high underwriting fees increase UK companies' cost of capital. The independent merchant banks, such as Schroders and Hambros, represented by the London Investment Banking Association, have lobbied hard against a reference to the commission, arguing that an investigation would damage London's reputation as a financial centre. They also tried to prevent publication of a study, commissioned by the OFT, which concluded that institutional investors earned "excess returns" of about £289m ($459.51m) from sub-underwriting rights issues for UK companies between 1986 and 1993. However, the Institutional Fund Managers Association, a trade group, whose members earn the majority of underwriting fees, said yesterday it had no criticism of the decision to refer the issue to the commission.

"We are not corporate finance people; we are fund managers," said Mr Richard Weir, director-general of the association. "We have no brief to comment on fees." The association's members want to see companies raise capital at the lowest possible cost using any mechanism available, he said.

For more than 30 years there has been an informal fixed-fee structure, with the underwriting fees amounting to 2 per cent of the sum raised. The fees are split between the lead underwriter (usually the company's financial adviser) which gets ½ per cent, the stockbroker, with ¼ per cent, and the sub-underwriters (usually institutional investors) which share 1¼ per cent.

Government to demand curb on European Court

By Kevin Brown,
Political Correspondent

The British government is drawing up proposals for the European Union's intergovernmental conference next year that would allow decisions of the European Court to be overridden by a majority vote in the Council of Ministers.

The proposals will form a crucial part of the government's approach to the negotiations, which the cabinet believes offer a unique opportunity to seek repatriation of a wide range of powers from Brussels. The disclosure that ministers are prepared to try to clip the wings of the court will surprise and delight Conservative Eurosceptics, many of whom have been angered by judgments they regard as undermining the rights of parliament.

The nine rebel Conservatives excluded from the parliamentary party for refusing to support the government on European issues will be particularly pleased, since many had regarded reform of the court as a lost cause.

The proposals, which are said to have received a mixed reaction during unofficial discussions in EU capitals, would provide a mechanism for ministers to weaken or reverse decisions of the court.

The effect would be to allow a big member state such as the UK to brush off or delay the impact of court decisions with the help of another large country or two or three smaller ones.

Under existing EU rules, court decisions can be changed only by an amendment to the Treaty of Rome, which requires unanimous approval in the council of ministers, and ratification by all national parliaments.

The UK is expected to argue that such a mechanism would be a logical extension of a little-known protocol to the 1991 Maastricht treaty which prevented retrospective application of a 1990 court decision on equal pensions. British ministers and officials are said to have been pleasantly surprised by the emergence of health as an area of EU competence that might be given up in intergovernmental negotiations.

Mr John Major is said to have been astonished during a private dinner at the Essen summit in December when health was identified by Mr Jacques Delors, former president of the Commission, as an inappropriate area for EU activity.

Repatriation of health would be especially welcome to Tory Eurosceptics because it was excluded from the Treaty of Rome in 1957, only to be added at Maastricht.

Mr Major is expected to wait several months before setting out the government's approach to the conference. However, he will seek to reassure Eurosceptics at a dinner given by the rightwing Conservative Way Forward group tomorrow. He is said to be keen to bring about a reconciliation with some of the rebels, including Mr Nick Budgen and Sir Teddy Taylor. But he is prepared to wait "months" for a rapprochement with the others.

In the Commons, Mr Douglas Hurd, foreign secretary, denied Labour claims that government policy on Europe was being driven by the need to appease the rebels.

Livestock exporter wins legal victory

A livestock exporter yesterday won the right to challenge a ban by the harbour authority at Dover in south-east England on the export of live animals, Deborah Hargreaves writes. Meanwhile Adur district council alleged planning infringements and sought to prevent the port of Shoreham on the south coast of England from shipping livestock.

The decisions follow weeks of protests at ports and airports by demonstrators opposed to the export of live lambs and calves to mainland Europe for slaughter or to be kept in crates.

Yesterday the campaign saw its first fatality. Police said a pedestrian died after being hit by a lorry during a protest against the export of live veal calves from Coventry airport in the English Midlands.

The firm of Peter Gilder & Sons from the central England village of Bourton on the Water was given leave to seek an urgent review by the High Court of Dover's ban on the livestock trade. Lawyers acting for Gilder said the Dover decision would "stifle trade and drive us out of business".

Adur council, which has jurisdiction over half of the area covered by the port of Shoreham, called on the harbour authority there to cease shipping live lambs and calves by Saturday or risk committing a criminal offence.

However, the council might breach European Union law if it forced the port of Shoreham to halt the trade. The European Commission might then be obliged to take legal action against the council.

UK NEWS DIGEST

City ready to combat 'usurpers'

The Corporation of London, the municipal authority for the City, unveiled a business strategy to maintain the City's position as one of the world's three leading financial centres. "There are other cities seeking to make serious inroads into – and if possible usurp – this role," the corporation said. It is the first time the corporation has used its powers to spend ratepayers' money on economic development, and it will consult the city's largest businesses today about its plans.

Mr Michael Cassidy, chairman of the corporation's policy and resources committee, said the approach would centre around promoting the City "as a brand name". He said: "This strategy indicates that the corporation has moved on from the period when it was assumed that the City sold itself just by virtue of its reputation. It's the sleeping giant awaking."

The corporation will hire a permanent team of ten staff to cover marketing, and has already started heavy promotion of the City as a business centre abroad, where it now faces strong competition from Paris and Frankfurt in particular. *John Authers*

Inflationary pressures rise as output slows

Speculation about the future direction of British interest rates was fuelled yesterday after a manufacturing survey suggested that output is gradually slowing, but that inflationary pressures are rising. Mr Eddie George, governor of the Bank of England, is due to hold a routine monetary meeting today with Mr Kenneth Clarke, the UK chancellor (chief finance minister).

Many economists expect the two men to raise rates from their current 6.25 per cent to counteract recent signs of rising inflation. But these expectations have been slightly tempered in recent days because Mr George believes that the recent surge in economic growth has passed its peak and is slowing to a more sustainable pace.

Consequently, many economists now suspect that Mr George will face a difficult juggling act in the months ahead, since mounting inflation may fuel City expectations of further interest rate rises, but falling output levels may make rate rises politically difficult. The leading indicator of inflation, compiled by the Chartered Institute of Purchasing and Supply and published for the first time yesterday, predicted that inflation will rise over the next few months.
Gillian Tett, Economics Staff

Time Warner quits bid for TV channel

Time Warner, the US media group, said yesterday that it has withdrawn from the bidding for Channel 5, Britain's prospective fifth terrestrial television network which is due to start broadcasting within two years. Time Warner had been an important partner in the Channel 5 Broadcasting consortium formed to bid for the licence. Its partners were MAI, the financial services and media group, and Pearson, owner of the Financial Times. Time Warner had been considered an enthusiastic applicant for the licence.

Mr Farrell Meisel, senior vice-president of Time Warner Broadcasting UK, said that "a number of uncertainties involved, certainly on the technical side" had resulted in the group's decision to drop out of the project.
Martin Mulligan

Pay rises reach two-year peak

Annual pay increases have reached an average rate of 3 per cent, the highest level for nearly two years, says the latest survey of wage agreements from Industrial Relations Services, an independent research organisation. The upward trend is in line with other wage monitoring bodies such as Incomes Data Services and the independent Labour Research Department (not part of the Labour party) which also suggest that 3 per cent has become the average increase. It contrasts with the Confederation of British Industry's latest estimate that wage settlements are levelling off.

IRS did not expect a "significant escalation in settlements in the months ahead", but warned that further rises in inflation could fuel wage demands. Early pay deals for 1995 indicate that the upturn in pay is being maintained, said IRS. Some industry-wide agreements including those in clothing, engineering construction and vehicle building were 3 per cent or more. There was a 3.5 per cent settlement at the English car factory owned by Nissan of Japan.
Robert Taylor, Employment Editor

Big council to shed 600 jobs and raise tax

The Labour-led city council in Birmingham, the second-largest city in England, warned that it would have to cut 600 jobs and increase its local property tax by 6 per cent during the 1995-96 fiscal year. The UK's largest metropolitan authority unveiled a 1995-96 budget of £960.5m ($1,500m) after finding £36.19m of accumulated reserves to top up the government estimate of what it ought to spend. The amount the government thinks the council needs to spend is £924.3m.

Mrs Theresa Stewart, Labour leader of the council, noted that the council had been forced to find savings of £41m. "This year's budget means less services and less jobs," she added. Like other councils, Birmingham has faced government pressure to hold down public expenditure. Increases in revenue support have been lower than the rate of inflation.
Paul Cheeseright, Midlands Correspondent

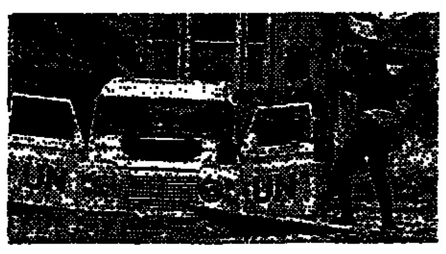
Unemployed face tougher pay criterion

Unemployed people will be obliged to accept any job offered, whatever the pay, under the government's Jobseeker's Allowance, which is expected to replace unemployment benefit in just over a year. A draft copy of the agreement unemployed people will have to accept before they receive any state benefit was released yesterday by Ms Ann Widdecombe, employment minister.

Anyone seeking the allowance will have to answer the question: "What is the lowest wage you are willing to work for?" When asked repeatedly by Mr Ian McCartney, the opposition Labour party's shadow employment minister, if there was any minimum wage figure that would be acceptable as a condition for receiving the Jobseeker's Allowance, Miss Widdecombe said there was none.
Robert Taylor

Floodwater is expected to recede soon

The National Rivers Authority predicted that flood waters might soon start to recede after the city of Gloucester in western England came close to a serious flood. Although Britain has escaped a crisis on the scale of those in other European countries, about 300 homes have been flooded in recent days and several families were evacuated near the England/Scotland border as the River Tees burst its banks.



Soldiers recently back from Bosnia helped rescue operations, and an army Land Rover still carrying its United Nations insignia became stuck in water in the main street at Boroughbridge in northern England. In mid Wales the River Dyfi burst its banks and cut the main road between north and south Wales.

Weather, Page 14

GM to hire staff: Vauxhall, the UK subsidiary of General Motors of the US, is to hire about 160 employees on temporary contracts at its car and engine plant at Ellesmere Port, north-west England. Managers at the plant, which produces the Vauxhall/Opel Astra, said they planned to raise exports this year by about 10,000 from 37,275 last year.

Go-ahead for oilfield: The government gave the go ahead for the £500m ($780m) development of the Captain oilfield 150km north-east of Aberdeen in Scotland. The field will use a floating production and storage vessel rather than a traditional fixed North Sea platform. Shuttle tankers will take the oil ashore. First production is expected by the end of 1996 and output is expected to be 60,000 barrels a day. Captain has reserves of about 300m barrels of oil and 53m cu ft of gas.

Action! as studio deal confirmed

Martin Mulligan on the purchase of a piece of movie history

British brothers Mr Ridley and Mr Tony Scott, both Hollywood film directors, yesterday formally announced the completion of their deal to buy the Shepperton Film Studios in the London suburbs for £12m ($19.1m) from Lee International, a lighting company which grew rapidly during the 1980s.

Funding of £7m was secured by Candover Partners, management buy-out specialists, with a further £1m from the Scott brothers themselves and the balance as debt finance and working capital provided by Barclays Bank.

The financing is widely seen as a vote of confidence by the City of London in British film making and may after many false dawns signal a true renaissance of the industry. Of the triumvirate of surviving British studios, Shepperton and Pinewood have enjoyed a revival in their fortunes, but Elstree has been less fortunate to date.

The Scott brothers were yesterday silent about their plans for Shepperton, promising to outline them in three weeks. But the acquisition of the studio by a team with strong Hollywood connections is expected to open a conduit for the shooting of large-scale US films in Britain.

The award-winning comedy Four Weddings and a Funeral with Hugh Grant and Andie MacDowell was made at Shepperton

Shepperton produced its first feature film in 1933. The site was requisitioned during the war for storage and bomber repairs, then entered a prosperous decade under the administration of Sir Alexander Korda. The studio turned out blockbusters including the Guns of Navarone and Dr Strangelove before the threat of takeover by property developers emerged in the early 1970s.

More recently it has produced Frankenstein, starring Kenneth Brannagh and produced by Francis Coppola, and Judge Dredd, starring Sylvester Stallone and with a budget of more than $50m.

The summertime success Four Weddings and A Funeral (with estimated profits of £62m on a £2.5m budget) was also filmed there.

More than 600 films including Colditz and David Bowie's The Man Who Fell To Earth have been made at the studio.

The track record of the Scott brothers is nearly as colourful.

Mr Ridley Scott made Alien, the cult classic Blade Runner, and Thelma and Louise. Mr Tony Scott directed Top Gun (a fighter-pilot fantasy and star vehicle for Tom Cruise) and Beverly Hills Cop II.

"It is not often that studios change hands," said Mr Oscar Moore, editor in chief of Screen magazine. Shepperton has been busier in the last year, as has Pinewood. It is operating at full tilt as a going concern, a thriving concern, so that it is even hard to get a booking at Pinewood for the next year or so.

"But Elstree has gone, so the British film industry is more than supporting two studios, but not three as it used to. It looks like two strides forward, one step back."

Like Pinewood, Shepperton is within easy reach of London. Unlike Pinewood, it does not have a James Bond stage - but it is a very successfully run studio business."

"Denis Carrigan [Shepperton's managing director] has done a bloody good job of keeping it up there with European studios, who can offer much cheaper rates," said Mr Moore.

TECHNOLOGY

Paul Taylor reports on the speed and capabilities of the newest supercomputers

Power at your fingertips

A matt red and black exterior gives little indication of the awesome computing power inside the Cray T3D "massively parallel supercomputer" unveiled at the Farnborough Supercomputing Centre in the UK last week.

The T3D computer at the core of the centre – a £30m collaborative Defence Research Agency and private-sector facility billed as "the largest concentration of supercomputing power in Europe" – is capable of undertaking 40bn floating point operations, or computations, a second.

The T3D, together with four conventional Cray supercomputers which complete the Farnborough set-up, will provide government agencies, industrial users and academics with access to high-performance computing power of the type needed for complex simulation and design work.

Supercomputers and other high-performance computers are used to solve complex mathematical problems or process vast volumes of data which would take ordinary mainframe machines weeks or months to complete. They are typically used for complex modelling tasks such as weather forecasting, fluid-dynamics and product design.

Computer simulation in particular is increasingly being used to solve complex problems faster and at a lower cost than more traditional experimental costs. For example, supercomputers are used in aeronautics and the pharmaceuticals industry, where they are used to design new drugs.

Many important scientific and engineering problems are so complex that solving them using numerical simulation requires extremely powerful computers which can cost up to $20m (£12.6m) each.

The cost, and the expertise needed to program and use supercomputers effectively, put them outside the reach of all but the biggest organisations, even though their use can improve international competitiveness and help bring new and better products to market earlier, cheaper and more safely than traditional routes. The theory behind the Farnborough Supercomputer Centre therefore is that companies and other organisations can either acquire a stake in the project in exchange for computing time, or buy time on the supercomputers at an hourly rate.

Farnborough, set up by the DRA in conjunction with British Aerospace, GEC Marconi and Cray Research, has also been designed as a national centre for high-performance computing, and as a focus for the development of supercomputer programming techniques.

The T3D, launched by Cray in 1993, is one of three in Britain – the others are at Edinburgh University and at the European Centre for Medium Range Weather Forecasting in Reading – and was the first supercomputer from Cray Research, the market leader, to use massively parallel processing (MPP) technology, first developed in the mid-1980s.

Massively parallel computers use hundreds, sometimes even thousands, of inexpensive industry-standard microprocessor chips linked closely together to build a powerful supercomputer.

The T3D supercomputer, for example, uses standard Alpha microprocessors manufactured by Digital Equipment while other systems aimed at broader business markets, such as those developed by Meiko, a UK-based MPP supercomputer manufacturer, use Sparc processors. IBM's SP2 system uses the PowerPC chip developed by IBM, Motorola and Apple Computer. Unlike older-style vector processing machines which tackle each part of a job in sequence, parallel systems divide the problem into many small parts and share it out among several processors which work simultaneously.

A second distinguishing feature of MPP machines is that they are scalable – within certain limits doubling the number of processors gives twice the amount of processing power. For example, the T3D case can hold up to 512 processors and John Fleming, marketing and sales support manager for Cray Research UK, says if even more processing power is required two cabinets can be linked together. As a result he says T3D prices can range from $2m to $80m.

Because of the way they function – and the current availability of appropriate software – the most powerful MPP machines are particularly suited to some applications such as fluid dynamics, electro magnetics and the processing of seismic data. General purpose MPPs such as those manufactured by Meiko, have also found several important business uses including data mining – examining massive volumes of data, for example customer information, to discover similarities or trends.

But for the time being, even MPP's most ardent advocates admit that more traditional vector processing supercomputers are better suited to some tasks. This is one reason why the Farnborough centre includes MPP and vector processing machines working in tandem.

Indeed Cray's reputation and dominance of the $1.1bn-a-year supercomputer market ahead of rivals such as Japan's Fujitsu, NEC and Hitachi and Convex of the US, has been built around the vector processing techniques.

In contrast to MPP supercomputers, vector processing machines achieve their fast calculation speeds by using one, or in the case of hybrid vector/parallel machines, a small number of specialist microprocessors. Because these traditional supercomputers use costly custom-made and liquid-cooled processors, they have been expensive to build and performance improvements have come relatively slowly.

While companies such as Meiko have won sales in the US, Cray's share of a shrinking world market for the fastest supercomputers – buffeted by defence spending cuts and the end of the cold war – has started to slip. As a result it has been forced to reassess its business strategy, develop smaller, lower-priced, mini-supercomputers and its own MPP machines.

As MPP technology has matured there have been a string of casualties – most recently Kendall Square Research and Thinking Machines, two MPP pioneers have recently filed for protection under chapter 11 of the US bankruptcy code. Analysts believe there are still too many companies chasing a limited market. Further consolidation looks inevitable.

Worldwide high-performance computer revenues, 1993

	Revenue $m	% of total market
Supercomputers	1,118	48.4
High-performance midrange	413	17.9
High-performance mainframes	465	20.2
Parallel processors	312	13.5
Total	2,306	

* Total revenues include hardware, software & service

Worldwide supercomputer market revenues, 1993

	Revenue $m	% of type	% of total high-performance
Cray Research	843.2	75.5	36.6
Fujitsu	155.0	13.9	6.7
NEC	44.6	3.9	1.9
Convex Computer	42.5	3.8	1.8
Hitachi	31.3	2.8	1.4
Total	1,116.2		48.5

Source: International Data Corporation

Secure code on chips

AT&T Bell Laboratories, the research arm of the US telecommunications group, and VLSI Technology, a Silicon Valley semiconductor manufacturer, this week announced plans to produce low-cost, virtually impenetrable encoding chips to ensure the privacy of voice and data communications.

The companies' announcement flies in the face of efforts by the US National Security Agency and the Federal Bureau of Investigations to restrict encryption technology so that officials can, under court order, eavesdrop on suspected criminals and spies.

The Clinton Administration has proposed a standard encryption device, called the Clipper chip, that has a "back door" which can be used to eavesdrop on communications between suspected criminals or spies. However, Clipper has been criticised by the computer industry as inadequate.

The chips that AT&T and VLSI are developing will use a more rugged encryption method and represent a rejection of the Clipper standard.

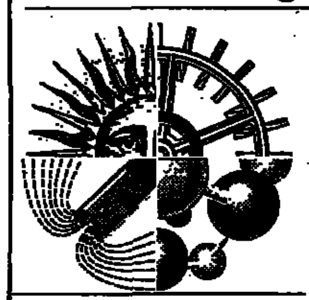
Demand for security-protection chips is expected to soar over the next few years with the growth of electronic commerce, home banking and bill payment via the Internet and other computer networks.

Dataquest, the US market research group, projects that 2.86m data processing, data communication and voice communication nodes will employ some type of hardware encryption in 1997, growing to 5m-7m by 2000.

"The information superhighway won't really become practical until everyone can be sure that their transactions and communications are both private and secure against tampering," says Mike Kaplan, director of Bell Labs' secure technologies department. Kaplan says the companies hope to see their encryption chips in use in most personal computers within five years.

Louise Kehoe

Worth Watching · Vanessa Houlder



Iron remedy for greenhouse gas

The "iron hypothesis" – the theory that plankton grows more abundantly in iron-rich water – has long interested scientists concerned with climate change.

If greater availability of iron encourages the conversion of carbon dioxide into organic matter, the oceans could absorb excess carbon dioxide from the atmosphere, countering the "greenhouse" effect.

Evidence supporting the iron hypothesis has been found by scientists at the Netherlands Institute for Sea Research and the Alfred Wegener Institute for Polar and Marine Research in Germany, following a comparison of two areas with different iron abundance in the Southern Ocean around Antarctica.

According to their report in today's Nature magazine, the iron-rich waters produced massive blooms of plankton, resulting in under-saturation of carbon dioxide in the waters, while there were no blooms in the iron-poor waters.

Netherlands Institute for Sea Research: Netherlands, tel 2220 69300; fax 2220 19674.

Participating from afar

Many people dislike videoconferences because the fixed position of the video camera and display makes it hard for the remote person to participate fully.

BT, the UK telecommunications company, has designed a system that aims to make users feel they are present in the meeting, by using multiple displays and cameras and advanced document sharing technology

The system comprises up to six "electronic surrogates" including a display, camera and speaker which are placed by the door, at the table, at the whiteboard and next to the overhead projector. At the flick of a switch, the remote user has different views of the meeting room.

BT: UK, tel 1473 647448; fax 1473 637626.

Neural signature identification

AEA Technology, the commercial division of the UK Atomic Energy Authority, has launched an electronic signature verification system, which compares the characteristics of a signature with a specimen sample. The system, which runs on a PC, uses neural networks, which are pattern recognition devices that have similarities to the function and structure of biological neurons.

AEA's Countermatch system monitors the appearance and the speed at which the signature is written. AEA says it can detect forgeries with 95 per cent accuracy rate.

AEA Technology: UK, tel 1235 436581; fax 1235 436656.

Pumping up efficiency

A Danish manufacturer believes its new pump for industrial heating systems breaks new ground in energy efficiency. Smedegaard's IsoTherm pump allows heat lost by the motor to be transferred to the liquid being pumped. It does not require a motor fan, so the pump is quieter and more efficient than conventional pumps.

Smedegaard: Denmark, tel 43961028; fax 43631766.

Removing the volatile element

Car fumes are a worry for the oil industry. Oxygen needs to be added to fuels to reduce the amount of carbon monoxide in exhaust emissions, but the process makes fuels more volatile – requiring further additives, writes Jenny Luesby.

Neste, the Finnish oil and gas producer, has developed a way of converting the more volatile elements of petroleum, the olefins, into less volatile ethers. This allows oxygen to be added without the need for so many additives, and ozone-depleting olefins are reduced by 20 per cent.

Neste: Finland, tel 358 04504153.

ARTS

The story so far. Author Thomas Mann, in the midst of writing *The Magic Mountain*, is kidnapped by Sid James, Kenneth Williams and Barbara Windsor. Carried off to a bed-and-breakfast near Baden-Baden, he is forced to work with them on a knockabout script about life in a sanatorium, loosely based on his novel.

Years later, after the demise of the principal creators, British director Alan Parker finds the lost script in a Pinewood attic. Buying the rights, he mixes it with the screenplay he has prepared from T. Coraghessan Boyle's 1993 novel about early-century health guru John H. Kellogg, *The Road To Wellville*. He then makes the film with Sir Anthony Hopkins and a cast of dozens. Finally he watches it open and close at the American box office.

What other plausible prehistory could be found for this movie? *The Road To Wellville* has such a blunderbuss comic approach to the theme of lunatic-fringe health faddism that both cast and audience spend their time dodging errant gags and scatter-shot slapstick.

The movie looks good: steepling Edwardian sets bursting with gadgets and gizmoes. (Put down designer Brian Morris for an Oscar nomination). And it often sounds good. Rachel Portman's music bounces along and Mann would admire, indeed probably contributed, lines like "We are lifeguards watching the shores of the alimentary canal."

But the more the film goes on – and at two hours it does go on – the more its acting and antics seem to hie from the St Vitus school of cloacal comedy. Never stand still while you can run, jump, shout, break wind or bend over for an enema. Matthew Broderick, as a young newlywed brought to Kellogg's clinic by his wife (Bridget Fonda), has scarcely signed in before he is on all fours for his first colonic wash. As the nurse squeezes the hose, we cut to the next scene's opening shot: warm brown beer gushing into a tankard. That sets this film's editing style.

Meanwhile bare-breasted Fonda takes baths of milk while Dana Carvey ogles her as Kellogg's lustful idiot son. We also have a subplot involving John Cusack and Michael Lerner as go-getters building a rival cornflakes empire from trial-and-error recipes. (Cue would-be rollicking scene of the two men spitting out serial cereals.) And we have Hopkins himself, the only performer to transcend the mayhem. Imperious, batty, bucktoothed, he seems born of some frightful, marvellous union between Bugs Bunny and Dr Strangelove.

Sex, excretion and digestion are fine and proper subjects for humour; but the jokes do have to be funny. Parker fires off so randomly that a few shots hitting our target funnybones – we do giggle at the manic scientism with which Kellogg analyses everything put before him, from specimen faeces to involuntary male erections – are outnumbered by the ones whistling past us and endangering the projectionist.

A cross between Bugs Bunny and Dr. Strangelove, Anthony Hopkins (above) is the only person to rise above the mayhem in 'The Road To Wellville'

Cinema/Nigel Andrews

The lunatic-fringe of health faddism

I Like It Like That is Spike Lee on a skateboard. Darnell Martin's debut movie, set in the Bronx, swerves, twists and executes aerial leaps: all the more astounding since the story could have been piously PC.

A young black-Hispanic wife (Lauren Velez) makes for freedom and the front door, through a scrimmage of children, when her preening, macho, ex-convict spouse (Jon Seda) betrays her once too often. But after flying straight into the arms of smoothie record mogul Griffin Dunne (red Lamborghini, office with couch) she flies straight out again. Better to re-confront the frying pan, she decides, than to stay in that particular fire.

Columbia gave Ms Martin $5.5m to direct her script, written while still at New York University. It was a bargain price. This comedy of survival keeps bubbling into a brimstone cautionary farce. Every character hits us in the eye with passion or idiosyncrasy: from the drag queen who lends our underendowed heroine his false breasts, to the children, who know they are plaintive pests under the grown-ups' feet but who squeeze every chance for emotional blackmail from the fact.

★

Luc Besson's *Leon* is a fathomlessly silly thriller from the man who gave us *The Big Blue* and *Nikita*. Where most films about tormented hit-persons think that one is enough, at least to occupy centre screen, *Leon* gives us two. Or three if you count 12-year-old Mathilda (Nathalie Portman), who escapes from a bloodbath in her parents' New York apartment to offer her freshly-orphaned services to the French assassin living next door.

He is Leon (Jean Reno). Sporting a three-day beard, beaky nose and granny-style shades, he looks like one of those characters condemned to stand on street corners in joke spy thrillers. But he takes Mathilda under his tutelage and is soon giving her sniping classes from his roof overlooking Central Park. These may prove useful since sociopath number three Gary Oldman – American accent, crazed speech patterns, grudge against Leon – is advancing towards the flat with an army of balaclava'd goons. Cue shoot-em-up.

THE ROAD TO WELLVILLE
Alan Parker

I LIKE IT LIKE THAT
Darnell Martin

LEON
Luc Besson

TRAPPED IN PARADISE
George Gallo

STRAW DOGS
Sam Peckinpah

The plot is mad, the script is bad, and Besson as ever favours a wide screen with bulging close-ups. This means that for two hours everyone looks like the face through the spyhole in your front door. Only sensible advice on this occasion: Do not open door.

Nicolas Cage is becoming a class comedian. In the shaggy-dog comedy *Trapped In Paradise* Cage *is* the shaggy dog. He speaks in a slow, hungover human woof and his lank hair frames a bloodhound face and spooked eyes. (He used to resemble Jonathan Ross; he is now coming to resemble Gene Wilder).

Cage plays one of three brothers unable to escape the small Pennsylvania town whose bank they have robbed, due to such cross-accidents as snow, ice, dogs and sweet old ladies. Written and directed by George Gallo, the film's jokes run round in circles much like its plot, with neither Jon Lovitz nor Dana Carvey (other brothers) seeming to enjoy the stationary state-of-play. Cage, though, revels. He makes stasis and misery seem hopelessly, humanly funny: he is an actor that James Thurber could have invented.

Straw Dogs returns in a new print struck by the British Film Institute. Back in 1971, this Cornish passion play starring and directed by Americans – Dustin Hoffman and Sam Peckinpah – was reviled by our own critics for its violence and eccentric picture of English village life. First, Hoffman's wife Susan George is raped by a bunch of yokels. Later, the same yokels storm his farmhouse to extract the man Hoffman is protecting: village retard David Warner, who has killed a young girl.

"Not the Cornwall *we* know" exclaimed the Fourth Estate, bemused by the bloodshed and warring Yankee/Mummerset accents. A few voices, though, antiphonally chorused, "So what?" (Mine was the one at the back, serving my tyro years on the BFI's Monthly Film Bulletin).

Straw Dogs is no more meant to be a Shell Guide to the west country than *King Lear* was a tourist brochure about Early Britain. Like *Lear*, Peckinpah's film has a dinning power and universality. Its story describes a brute parabola from newborn disorientation – the stranger abroad – to the baptisms we all learn through life by appetite, fear, confrontation, intimacy with death. No film-maker in our time has grappled with those subjects more strongly than Peckinpah.

Songs at the Wigmore

The death of Geoffrey Parsons last Thursday robbed the recital hall of one of its most familiar figures. After the retirement of Gerald Moore, nobody seemed a more natural successor in the role of singers' trusted friend and partner than Parsons, who was the favoured accompanist of vocal recitalists from Elisabeth Schwarzkopf to Olaf Baer over half a century.

It is a mark of how nobly he upheld the tradition that the standard of accompanying today is so high. There are more young accompanists than there were and they are mostly better prepared than previous generations. The day after Parsons died, Charles Spencer was at the Wigmore Hall to accompany the young German soprano Ruth Ziesak – not playing like Parsons himself, for that deep cushion of sound was very much Parsons's hallmark, but bringing his own quickness of intellect to the various styles.

It was an attractive, if not emotionally ambitious recital. Ziesak has the kind of pure, unblemished soprano that often makes its way up the career ladder via early music these days, but she has preferred Mozart, notably with Harnoncourt and Solti. The voice is so bright that one of the challenges of a solo recital is to see how much she is able to soften its edges. In her Mozart songs there was little need and her clear words were complemented by Spencer's precision at the piano.

Her Strauss took the voice higher, showing very good technical control (Ziesak will surely make a first-rate Sophie in *Der Rosenkavalier*, if she has not done so already). By contrast, the two sets of Debussy's *Fêtes galantes* demand a continual subtle shifting of tone colours, which she managed stylishly without quite putting over any deeper meaning. It was a neat idea to pair Strauss's flowery *Mädchenblumen* with Milhaud's *Catalogue de fleurs*, neither of them at all well known. Ziesak deserves her early success.

On Tuesday, David Breitman was a forceful and more independent voice at the piano, when he accompanied the American baritone Sanford Sylvan. The singer (Leporello in last year's *Don Giovanni* at Glyndebourne) and pianist are a well-known recital duo in the US and their performing styles are well matched. Sylvan has a strong and gritty voice, which took time to ease into any softer colours at the Wigmore. In Schumann's *Liederkreis*, Op.24, the quiet singing was hollow-toned.

The bigger personality of Ravel's *Don Quichotte* songs suited him better, but the real interest came after the interval. Sylvan was one of the four baritones who gave the premiere of the *AIDS Quilt Songbook* and he introduced five of its songs, each written as a tribute by a different American composer, to London on Tuesday. Styles and quality vary wildly, as might be expected, but songs like Chris DeBlasio's moving "Walt Whitman in 1989" deserve a life of their own. Sylvan sang them with the same directness and honesty that characterised him throughout.

Richard Fairman

Theatre/Alastair Macaulay

'Love's Labour's Lost' played for laughs

Every Shakespeare play is more or less tragicomic, and the quintessence of Shakespeare is often most powerful when comedy and tragedy are simultaneously in evidence. To find Shylock amid a comedy, to find the Porter amid *Macbeth*: by these surprises we know their author's genius.

The great astonishment in *Love's Labour's Lost* occurs very near the end. Amid a play that is part Babel of dizzy scholastic wit, part a tender joke about manners and emotion, part farce, suddenly arrives the messenger to tell the Princess of France that the King, her father . . . "Dead, for my life!" she completes his sentence. As the central characters prepare for a year of mourning, they speak at last gravely about love, which they have been pursuing hitherto ridiculously.

But in the stagings of *Love's Labour's Lost* I have loved best, this part-tragic episode has been only the last and largest of several clouds that have passed across the comic sun. Throughout the play, you can feel Shakespeare playing virtuosically with "recognition" and "reversal", those characteristic Aristotelian elements of tragedy. Not, however, in Ian Judge's production for the Royal Shakespeare Company, which keeps most of the play bubble-light with musical-comedy pretensions.

The play occurs not in Navarre but in Edwardian Oxbridge, where there is honey still for tea. When news of death and mourning finally invade the play, this seems only a temporary blip; and we see that ordinary service will be resumed as soon as possible, elegant and charming. Then from over the horizon the guns are heard and explosions glimpsed.

The song that concludes the play – its words about the seasons of a year reminding us of the year that will pass before the lovers may meet again – is turned into a cute little waltz-song ensemble in fancy dress.

Judge is a puzzle. Amid this *Love's Labour's* (new in 1993) or his 1994 RSC *Twelfth Night*, you may often tell how well he knows the workings of these comedies, and what insights he brings into their details. I have never, for example, seen the supporting characters Katherine and Maria, and their respective paramours, so sharply differentiated; or the "boy" Moth so cleverly placed. But Judge seems to have only one eye on Shakespeare; his other eye is cynically set on the shallowest, touristy instincts of his audience.

The musical-comedy side is another problem. When reviewing *A Christmas Carol* in December, I assumed that the amplified musical accompaniment was taped, and I now apologise for this mistake. The musicians, I am informed, play Nigel Hess's music live at each performance, somewhere way offstage; and they do it again at regular points throughout this *Love's Labour's*. But who will apologise to us, or to musicians, for taking away the live element from live music? Or for having this lifeless live muzak creep under several of the play's speeches?

The present revival has been almost entirely re-cast in preparation for a big foreign tour, but its mood is much the same. Sarah Woodward's new assumption of Rosaline is her best achievement to date with the RSC: merry if not witty, and purposeful.

Richard Garnett has the cynicism for Berowne, but he never lets it drop; and his whooshing sibilants and nasal upper register are further irritants. As the Princess, Jenny Agutter wears gentility like a vizor; and she seems the more constrained by having to force her gentle tones into Barbican amplitude. Richard O'Callaghan is not the first Don Armado to overdo a Spanish accent, but he may be the least intelligible to date.

I am glad to re-encounter Raymond Bowers as gentle dear Sir Nathaniel and Mike Burnside as plodding Constable Dull (whose "Nor understood none, neither" is one of the best pay-off lines Shakespeare ever set up). Though "Good Lord Boyet" is something of a eunuch role, it is not helped by changing its sex into mannish Boyette; and Cherry Morris's performance is too artful for comfort. A beautiful and wise play has been rendered pretty and clever.

In RSC repertory at the Barbican Theatre until March 4, then on British Council foreign tour.

INTERNATIONAL ARTS GUIDE

■ BERLIN

OPERA/BALLET
Deutsche Oper Tel: (030) 341 9249
● L'Italiana in Algeri: by Rossini. Conducted by Ion Marin/Carlo Rizzi, produced by Jérôme Savary at 7 pm; Feb 4, 8
● The Marriage of Figaro: by Mozart. Conducted by Stefan Soltesz, produced by Götz Friedrich at 7 pm; Feb 7, 9

■ LONDON

CONCERTS
Barbican Tel: (0171) 638 8891
● Tippett: Visions of Paradise: opening concert of the 'Visions of Paradise' festival that celebrates the 90th birthday of one of the most eminent living British composers. Sir Colin Davis conducts the London Symphony Orchestra to play Mozart and Tippett's own, 'A Child of Our Time' at 7.30 pm; Feb 5
Festival Hall Tel: (0171) 928 8800
● Philharmonia Orchestra: with violinist Kyung-Wha Chung and conductor Kurt Sanderling plays Beethoven and Bruckner at 7.30 pm; Feb 4, 8
● Vienna Philharmonic Orchestra: Bernard Haitink conducts Bruckner's Symphony No. 8 at 7.30 pm; Feb 2
OPERA/BALLET
English National Opera Tel: (0171) 632 8300
● King Priam: a new production of Tippett's opera that opens the London festival - Tippett: Visions of Paradise, to celebrate the composer's 90th birthday at 7.30 pm; Feb 3, 9
● Rigoletto: Jonathan Miller's updated version of Verdi's opera where the duke is a mafia boss at 6.30 pm; Feb 4
Royal Opera House Tel: (0171) 340 4000
● Cosi Fan Tutte: by Mozart. A new production directed by Jonathan Miller. Conductor Evelino Pidó. In Italian with English surtitles at 7 pm; Feb 3, 6, 8
● Der Rosenkavalier: by Strauss. Conducted by Andrew Davis, directed by John Schlesinger. Soloists include Felicity Lott/Anna Tomowa-Sintow as Prinzess von Werdenberg at 6.30 pm; Feb 4 (5.30 pm), 7
● Giselle: music by Adolphe Adam. A Royal Ballet production choreographed by Marius Petipa after Jean Coralli and Jules Perrot and produced by Peter Wright at 7.30 pm; Feb 9
● Troilus and Cressida: by Walton. An Opera North production conducted by Richard Hickox and directed by Matthew Warchus at 7.30 pm; Feb 2
THEATRE
National, Cottesloe Tel: (0171) 928 2252
● Dealer's Choice: written and directed by Patrick Marber, six men stay up late to play poker, and win at all costs at 7.30 pm; Feb 9 (7 pm)
National, Lyttelton Tel: (0171) 928 2252
● The Children's Hour: by Lillian Hellman, directed by Howard Davies at 7.30 pm; Feb 3, 4 (2.15 pm), 9
National, Olivier Tel: (0171) 928 2252
● The Merry Wives of Windsor: by Shakespeare. Terry Hands directs his first production at the National. With Denis Quilley as Falstaff, Brenda Bruce as Mistress Quickly and Geraldine Fitzgerald as Mistress Ford at 7.15 pm; Feb 6, 7, 8, 9 (2 pm)

■ NEW YORK

GALLERIES
Guggenheim Soho Tel: (212) 423 3652
● Antoni Tapies: 55 of the leading Spanish artist's most important works dating from 1946 to 1991; to Apr 23
OPERA/BALLET
Metropolitan Tel: (212) 362 6000
● Cavalleria Rusticana / Pagliacci: by Mascagni/Leoncavallo. Production by Franco Zeffirelli, conductor Christian Badea at 8 pm; Feb 4, 7
● Il Barbiere di Siviglia: by Rossini. Produced by John Cox, conducted by David Atherton at 8 pm; Feb 6, 9
● L' Elisir d' Amore: by Donizetti. Produced by John Copely, conducted by Edoardo Müller at 8 pm; Feb 3
● Simon Boccanegra: by Verdi. A new production directed by Giancarlo del Monaco. James Levine conducts the opening night cast of Cheryl Studer, Plácido Domingo and Vladimir Chernov at 8 pm; Feb 2
● Turandot: by Puccini. Produced by Franco Zeffirelli, conducted by Nello Santi at 8 pm; Feb 4, 8
THEATRE
Roundabout Theatre Company Tel: (212) 869 8400
● The School for Husbands/ The Imaginary Cuckold: by Molière. Michael Langham directs this Richard Wilbur translation starring Brian Bedford at 8 pm; from Feb 2 to Mar 12 (Not Mon)

■ PARIS

CONCERTS
Champs Elysées Tel: (1) 47 23 37 21/47 20 08 24
● Jorge Chaminé: baritone with pianist Maria Françoise Bucquet plays Tchaikovsky, Borodin and Glinka at 8.30 pm; Feb 7
● London Symphony Orchestra: with pianist Maurizio Pollini, soprano Françoise Pollet and mezzo-soprano Lucy Shelton. Pierre Boulez directs Debussy, Bartók and his own compositions at 8.30 pm; Feb 2
● Maxim Vengerov and Itmar Golan: an evening of violin and piano recitals by Mozart, Beethoven, Prokofiev and Shostakovich with violinist Vengerov and pianist Golan at 8.30 pm; Feb 6
OPERA/BALLET
Opéra Comique Tel: (1) 42 96 12 20
● Lakmé: by Delibes. Conducted by Frédéric Chaslin and produced by Gilbert Blin at 7.30 pm; to Feb 18
Opéra National de Paris, Bastille Tel: (1) 47 42 57 50
● La Damnation de Faust: by Berlioz. Conducted by Myung-Whun Chung and produced by Luca Ronconi. Soloists include Béatrice Uria-Monzon as Marguerite, and Thomas Moser/Gary Lakes as Faust at 7.30 pm; Feb 9
● Lucia di Lammermoor: by Donizetti. A new production by Andrei Serban with Maurizio Benini and Roberto Abbado (from April) conducting the Orchestra and Chorus of the Paris National Opera at 7.30 pm; Feb 4, 8

■ STUTTGART

OPERA/BALLET
Staatsoper Stuttgart Tel: (07) 11 19703/4
● Macbeth: by Shakespeare, music by Verdi. A new production by Ruth Berghaus, conducted by Gabriele Ferro at 7.30 pm; Feb 3, 5, 8

■ TURIN

OPERA/BALLET
Teatro Regio Tel: 011 8815 241
● A Midsummer Night's Dream: music by Britten, book by Shakespeare. Conducted by John Mauceri, directed by Alfredo Arias. In English at 8.30 pm; Feb 3, 5 (3 pm)

■ WASHINGTON

CONCERTS
Kennedy Center Tel: (202) 467 4600
● National Symphony Orchestra: with violinist Cho-Liang Lin. Paavo Berglund conducts Kokkonen, Tchaikovsky and Brahms at 8.30 pm; Feb 9
● Washington Chamber Symphony: Stephen Simon conducts Tower, Mozart and Mendelssohn at 7.30 pm; Feb 3, 4
OPERA/BALLET
Washington Opera Tel: (202) 416 7800
● Semele: by Handel. Conductor Martin Pearlman. Roman Terleckyj directs a Zack Brown production at 8 pm; Feb 2, 6 (7 pm), 9
● The Bartered Bride: by Smetana. Conducted by Heinz Fricke. In English at 8 pm; Feb 3, 5 (2 pm), 8
THEATRE
Arena Stage, Fichandler Theater Tel: (202) 488 3300
● Long Day's Journey into Night: Eugene O'Neill's classic American drama, directed by Douglas Wager at 7 pm; to Feb 5 (Not Mon)
Kennedy Center Tel: (202) 467 4600
● How to Suceed in Business Without Really Trying. Directed by Des McAnuff and starring Matthew Broderick as J. Pierrepont Pinch, the little window-washer with big corporate dreams at 8 pm; to Feb 26 (Not Mon)
Studio Theater Tel: (202) 332 3300
● Conversations with My Father: Herb Gardner's autobiographical work, directed by John Going. Sun 2pm and 7pm otherwise at 8 pm; to Feb 5 (Not Mon)

■ ZURICH

GALLERIES
Kunsthaus Zürich
● Degas-The Portraits: a major exhibition of the portraits of Edgar Degas; to Mar 5
OPERA/BALLET
Opernhaus Tel: (01) 262 09 09
● Der Freischütz: By Weber. Conducted by Nikolaus Harnoncourt and produced by Ruth Berghaus; at 7.30 pm; Feb 3, 9
● The Masked Ball: by Verdi. Conducted by Franz Welser-Möst and produced by Michael Hampe at 7.30 pm; Feb 2, 5 (4 pm)

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Financial Times Business Tonight

Midnight
Financial Times Business Tonight

Why the jobless aren't working

BOOK REVIEW

ACTIVELY SEEKING WORK? The Politics of Unemployment and Welfare Policy in the United States and Great Britain
By Desmond King
University of Chicago, 331 pages, £27 and £14.95 ($35 and $19.95)

The UK government's introduction of a "jobseeker's allowance" to replace the present unemployment benefit is the focus of a passionate public debate about how to get the jobless back to work.

But the new allowance – which will be paid only to those who agree to look actively for a job – is only the latest example in a tradition of UK labour market programmes dating back to the last century.

The current UK employment secretary, Michael Portillo, is echoing the views of Victorian administrators when he speaks of the obligations on the jobless to seek work. They saw unemployment as a sign of personal failure rather than a consequence of the ups and downs of the business cycle.

Hunting down the scrounger and castigating the workshy runs deep through UK and US attitudes to unemployment. Winston Churchill, when he was the reforming Liberal president of the Board of Trade in 1909, said: "There is no reason at all why people should wander about in a loafing and idle manner; if they are not earning their living they ought to be put under some control."

As Desmond King demonstrates with an impressive range of archival evidence from both sides of the Atlantic, this approach has meant the development of employment strategies more concerned with the distribution and value of social benefits than with job placement for those who find themselves unemployed.

As a result, King argues, US and UK public policy has meant "the systematic exclusion and political weakness of the most disadvantaged jobseekers and welfare recipients". For millions, the dole has been a degrading stigma, a way of dividing them from the rest of the labour force.

Part of the problem has always been that neither employers nor trade unions have given enough support to the development of "active" labour market measures, such as training. On the contrary, they have preferred to retain their autonomy by discouraging direct state intervention.

King blames much of this on companies that have concentrated on competing with each other rather than working together to form strong local institutions, such as chambers of commerce, to represent them and to develop employment strategies. In Germany and Sweden, such local organisations have concentrated on the need for training as many people as possible, though this has proved less successful in recent years.

But King also criticises the trade unions. In the US, he argues, they failed to champion the cause of the unemployed, merely looking after the interests of their members in work. "Organised labour," he writes, "has been disinclined to mobilise its political strength to build universal public welfare programmes."

Nor has the picture been much better in the UK, despite greater trade union influence and the role of the unions in the Labour party. King believes decentralised collective bargaining in the private sector allowed the craft unions to restrict the numbers of skilled workers employed in companies and prevent employers freely organising training.

Such indifference by both employers and unions towards the creation of strong labour market institutions has carried a heavy price: the neglect of training. Moreover, as King explains, the US and the UK have put more emphasis on restricting public expenditure than on funding employment creation measures.

Labour market policies in both countries have been dominated – King says – by "an individualist liberal ideology". Supporters of more state intervention in employment measures have been too weak to influence the dominant right-wing political parties.

The author is not hopeful that this will change in the future, despite the growing concerns in both countries about lack of competitiveness, poor productivity and inadequate training. He believes there is no incentive for anybody – individual employees, companies, unions, the state – to alter the way in which they behave. In his opinion, the UK and the US have developed a self-perpetuating attitude towards welfare that is almost impossible to challenge. "The political will and comprehensive institutional reorganisation necessary to establish effective programmes have yet to materialise in either country," he concludes.

He is, perhaps, being too pessimistic. On both sides of the Atlantic, efforts are being made to overcome the legacy of neglect. The employer-dominated Training and Enterprise Councils in the UK, and the US Private Industry Councils, are belated but important attempts to deal with both the problems of the unskilled and the long-term unemployed at a local level.

The pressure for stronger government measures in the US and the UK to coax the jobless back into the labour market through "workfare" – mixing coercion with encouragement – is also growing more intense. But the UK government sees this as too expensive a solution.

King should note that the high-spending, government-driven labour market policies predominant in mainland Europe are becoming more flexible and edging closer to the Anglo-American approach, although the priority given to training will remain.

Nonetheless he has produced a cogent argument that deserves to be read by public policymakers. By highlighting the tenacity of traditions in US-UK labour market policy, he will strengthen the doubts of those who believe a public commitment to full employment is little more than an empty political slogan.

Robert Taylor

Mexico will not be the last shock

By Samuel Brittan

The World Economic Forum, which meets in Davos every winter, is a pleasant, if slippery, opportunity to touch base with the world's political and business establishments. In one of the smaller sessions the question was posed: where will the next financial shock be after Mexico?

Hungary needs to be watched. But the obvious risk for the next-but-one really large shock is China. Few so-called "business leaders" can resist the lure of the huge numbers – population, growth-rate and so on. A generation ago their forebears followed Eisenhower and Macmillan in search of the supposedly vast Soviet markets.

Because the legal position of so much private business in China is so obscure – neither fully state owned nor privately owned in the western sense – the ultimate responsibility for commercial payments and debt servicing is also unclear. The Chinese were present in force in Davos. But I doubt if the response of the country's economic vice-premier, Zhu Rongji, to complaints about late payments encouraged many participants. When asked for his telephone or fax number, he suggested that businessmen with problems should contact his secretary.

A new-old idea

The serious preoccupation continued to be, however, the fallout from Mexico. One hitherto little known idea for reconstructing the finances of emerging countries whose time may have come is currency boards. Many of these were originally established to run subordinate currencies in the old British colonies. What have they to do with monetary reform in independent countries today?

A handful of economists, led by Prof Steve Hanke, have been arguing that such boards provide a better alternative to either currency pegs, which are subject to speculative attacks, or floating exchange rates, in which there is no confidence. A currency board has to accumulate enough foreign exchange reserves to provide 100 per cent cover both for local notes and coins and for the reserves of the commercial banks.

There have been three or four such experiments recently. Hong Kong resurrected its currency board in 1983, using the dollar as the anchor currency. Estonia has pegged its currency to the D-Mark by such means since 1992, and Lithuania since last year. The Argentine central bank has also been acting more and more like a currency board since 1991 and inflation has come down from over 1,000 per cent to a crawl.

The advantage is that the exchange rate link should not be in doubt, as domestic money is convertible by private citizens peso for peso. The disadvantage is that currency boards, unlike normal central banks, cannot provide liquidity to the domestic markets in emergencies. This may, however, be a gain when a currency has been under a cloud and discretionary policy is distrusted by the financial markets.

In the case of Argentina it is claimed that the authorities have enough reserves to convert into dollars any pesos that are brought to them; and the result of a severe run on the currency would simply be the "dollarisation" of the economy.

Such boards are easier to envisage in countries where bank notes are an important part of the money supply and the monetary base has some meaning. They are less easy to imagine in countries such as the UK, where the Bank of England stands ready to supply the commercial banks with reserves on demand at a penalty interest rate.

As with other currency arrangements, we still need a systematic analysis of the kinds of country for which a currency board is most suitable, rather than universal advocacy or rejection. Moreover, if many other countries were to follow the lead of Argentina and Estonia, the Federal Reserve and Bundesbank would find themselves central bankers for a much wider area than their own country, with implications still to be fully understood. But this is no reason why the Mexican economy – which like the Argentine economy is pretty dollarised already – should fail to go ahead with a board.

DAVOS
Notebook

How to top-up

The least discussed part of political economy is the art of coining the right names. Nowhere is this more needed than for ideas on topping up the pay of workers with low earning power in place of the traditional emphasis on dole payments for the jobless.

Hitherto, I have focused on the similarities between different kinds of top-up. But I have yet again heard German economists, as well as businessmen, tut-tutting about "subsidising hippies", and Michael Portillo rejecting all top-up notions out of hand as "a menu without a price" (as if I were an opponent on the *Labour* front bench). It is now necessary to make a few basic distinctions.

Eddie George is at heart an economic Eurosceptic – in contrast to his predecessor

First a *minimum wage* is a restriction on what an employer can pay a worker to do a job and what a worker is allowed to accept. By contrast, *top-up schemes* avoid direct interference with pay determination and redistribute towards the least well-off through the tax and social security system.

The most ambitious form is the full *basic income*. Every individual or household receives a modest payment from the state, enough to cover essentials, over the counter. Anything earned is taxed at the normal income tax rate.

There is a more modest version which might be called the pure *negative income tax*. Here poor persons or households receive a minimum payment which is withdrawn at quite a steep rate – say, 70 to 80 per cent – as earnings rise until the break-even point is reached. After that the normal personal tax rate is levied.

There is a third variant, which I propose to call a *minimum income*. This functions in the same way as a negative income tax, but the top-up is only available on evidence of genuine work-search.

Let us concentrate for now on the *minimum income* subject to work-search efforts. Many present social security systems try to provide just such a minimum. But because they have grown up as an untidy superimposition of numerous specific benefits, they do not always succeed.

For instance, in the UK many people are unsure what family credit or housing benefit they would get if they took a low-paid job, and are worried about the delay in receiving it. The level of top-up may also not be enough for breadwinners seeking full-time jobs and it has not hitherto been available to childless households.

The last UK Budget attempted to remedy some of these deficiencies, although too tentatively. But if the proposals were to be improved and they succeeded, the UK would have a minimum income in all but name; and so might other countries travelling in a similar direction. It is difficult to see how Michael Portillo can object to a minimum income if he accepts the Budget.

Curious pals

It is very peculiar: but Continental, and above all French, political leaders and central bankers who favour more pay flexibility and fewer cost disincentives to the employment of labour are strong supporters of a single European currency. On the other hand, those in the British cabinet who shout loudest about using market forces to fight unemployment parade their undying hostility to Emu. At a Davos session Francophone speakers were adamant that high French unemployment was due to forces like high social charges, minimum wages and hiring restrictions. Many in the audience continued to believe that the need to follow high German interest rates aggravated the recent French recession. But the official speakers were by and large convincing that the underlying, or long-term rate of French unemployment had little to do with monetary or exchange rate policy.

The leading *economic* opponent of European fixed exchange rates or a single currency is not, however, Michael Portillo, but the Bank of England governor, Eddie George. His speech on Tuesday in Paris qualifies him for membership of the Fresh Start Group of Eurosceptic Tory MP's, the old Labour left and the like. This is all the more intriguing, as his predecessor, Lord Kingsdown, is chairing a basically sympathetic study of Britain and Emu.

The present governor's main point is that countries with excessive real wages may still need to reduce them by the devaluation back door, and cannot rely on wage flexibility alone. But which country does he have in mind? Spain, which is unlikely to be a founding member of Emu in any case? Or France, whose real exchange rate is on most available indicators undervalued in relation to Germany's? And it is hard to believe that he wants to endanger the still-fragile low-inflation performance of the UK by holding out the prospect of bailing out excessive pay and price increases with yet another British devaluation.

If the Governor wants to continue in this vein, he should be more specific and not rely on references to textbook possibilities which have to be decoded by the *cognoscenti*.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). Translation may be available for letters written in the main international languages.

UK business finds loss of sovereignty to EU unsatisfactory

From Mr Tim Melville-Ross.

Sir, In your leader, "A phantom Euro-debate" (January 31), you say that the 1996 European inter-governmental conference is likely to have a limited agenda and that some of the steps taken are bound to entail "a modest further sharing of sovereignty".

In fact, the UK has not been sharing sovereignty in recent years. We have seen the wholesale loss of our ability to govern ourselves and lead our own lives. The list of European legislative acts and European Court judgments is immense.

The fact is that, today, British business and the British economy are ruled substantially by the European Union and not by our own democratically elected and accountable parliament in Westminster.

Business finds this unsatisfactory. It is extremely difficult to follow the tortuous and irrational legislative process which constantly confronts business with new laws which it must obey but about which it has had no voice.

The prime minister, John Major, is quite right to say that he will not accept any "constitutional change which impacts upon the British parliament", and I am sure that most of your business readers would agree with him.

Tim Melville-Ross,
director general,
Institute of Directors,
110 Pall Mall,
London SW1Y 6ED, UK

UN criticism could lead to improved children's rights

From Mr Michael Taylor.

Sir, The criticism of the UK government by the United Nations over children's rights and welfare has opened up a useful debate. Your report ("UN raps Britain on children's rights", January 28) outlined some of the criticisms made.

The publication of the UN committee's comments, however, should lead to more than an argument. It should provide an opportunity for politicians, policy makers and organisations working with children and young people to look constructively at how the situation can be improved.

As you reported,the UN committee drew attention to the fact that, currently, some laws are not being framed "in the best interests of the child". What is needed is a mechanism within government to ensure that this principle, from the UN convention on the rights of the child, is respected in legislation.

This mechanism is unlikely to appear immediately. Politicians need to discuss fully how the UN convention can be implemented. Save the Children, and other children's organisations, have called for the convention to be debated in parliament. Hopefully the recent press coverage will make a debate much more likely.

Michael Taylor,
director of UK and European programmes,
Save the Children Fund,
17 Grove Lane,
London SE5 8RD, UK

Real value of care system

From Prof Anne Showstack Sassoon.

Sir, In Hugh Carnegy's piece on the financial challenge facing Sweden's subsidised nurseries ("Cost cuts hit Swedish childcare", January 24), University of Chicago economist Shervin Rosen asks: "If Swedish women take care of each other's parents in exchange for taking care of each other's children, how much additional real output comes of it?"

If Professor Rosen ever ventured into the south side Chicago neighbourhood where the university is located, which has some of the worst social problems in the US, he might ask a more relevant question: "If a higher proportion of US gross national product were spent on nurseries and provision for care of the elderly of the same quality as those in Sweden, what effect would this have on the resources which would otherwise be needed to be devoted to crime control and drug abuse?"

Anne Showstack Sassoon,
Kingston University,
Penrhyn Road,
Kingston upon Thames,
UK

Tax returns of 'fat cats'

From Mr Paul Dymock.

Sir, The unfair criticism of unfair pay ("Financial fat cats or tigers", January 28/29) reflects the poor functioning of the information market in rewards. Whatever information flow the UK's top executives set up under the auspices of the Confederation of British Industry it is doomed to provide only half the picture and half the antidote to envy. City lawyers, merchant bankers and footballers, as Martin Dickson points out, can have bigger, but undisclosed rewards. The market in information about rewards for scarce skills needs a more broadly based comparable information flow and this is a government task, given the national interest in getting the incentives right.

Why not use the tax system as a source of information to create a more level playing field for fat cats and tigers? Publication of the tax returns of all those who are rewarded by more than, say, £250,000 would give insights into the markets for scarce skills. Such comparative information on rewards could help to improve the supply of talent to industry – a legitimate concern of your correspondent Peter Breen (Letters, January 28/29).

Paul Dymock,
6 Rue Georges Ville,
Paris 75016, France

UK not powerless to block Spanish access to fishing grounds

From Dr Winifred Ewing, MEP.

Sir, When commenting on Lord Howe's attack in the FT on the prime minister's European policy ("A better European policy for Britain", January 30), a BBC Radio 4 newscaster reported that the UK had been powerless to block Euro-decisions to grant Spain greater access to our fishing grounds.

This is an oft-repeated and erroneous notion. The glaring paradox in the BBC's thesis is that the UK government defied the terms of the 1985 Spanish Accession Treaty (which was solemnly signed by the then Sir Geoffrey Howe on the UK's behalf) in order to make needless, unwarranted and unjustified concessions to the Spanish Armada at the expense of Britain's fishing fleet.

According to "Sir Geoffrey's treaty", various restrictions on Spanish access could only be amended, suspended or repealed by way of the EU's treaty amendment procedures. But Mr Major's government deliberately circumvented Community law to abolish vital guarantees under incompetent (ie, unconstitutional) majority voting procedures. Britain's ministers (and most of its MEPs) did not even bother to vote against, far less challenge or veto, a whole series of incompetent Euro-decisions which are bound to spell disaster for its fishermen.

The Euro-sceptics in John Major's cabinet could have prevented the sell-out of the treaty guarantees which Sir Geoffrey Howe negotiated into Spain's Act of Accession. They could have protected Britain's fishermen by defending the Common Fisheries Policy against Spain's naked greed. They failed badly. I hope Britain's fishermen are not now placing too much faith in John Major's ability to negotiate a UK opt-out of the Common Fisheries Policy. Surely other member states will reject further UK opt-outs of messes of the UK's own making.

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FINANCIAL TIMES

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Thursday February 2 1995

Too important to stop now

Mr John Major moved quickly yesterday to reassure Ulster's unionists that the proposed framework document for a political settlement in the province will not be the route map for a united Ireland. His decision to offer that reassurance through a television broadcast to the nation was right. The search for a settlement has reached a critical phase. It must not be derailed by the partial leak of the draft document under consideration by London and Dublin.

The sections of the latest draft published yesterday in The Times greatly alarmed unionist leaders. The proposal for a new North-South institution, equipped to operate in some areas with executive powers, was judged by many unionist MPs to mark the start of a constitutional slippery slope to a united Ireland. Mr James Molyneaux, leader of the official Ulster Unionists upon whom Mr Major's government relies for support, was among those declaring the plan unacceptable. He did not need to remind the government that the unionists wrecked the 1973 Sunningdale agreement because of similar fears about of a Council of Ireland.

The concern is understandable. Since partition in 1920, the abiding fear of the protestants in Northern Ireland has been of a "sell-out" by the government at Westminster.

The majority must be reassured that they will never be coerced into a united Ireland. But the nationalist minority must be persuaded that any agreement respects the aspiration to eventual unity. In return for the removal of its constitutional claim to the North, Dublin wants an all-Ireland dimension to life on both sides of the border. Squaring such circles is impossible without arousing suspicions on all sides.

The government is offering a "triple lock" to guarantee that it will not ride roughshod over democratic opinion. If and when it is agreed with Dublin, the document will be published as a basis for discussion between the constitutional parties. Whatever those parties eventually agree will be subject to a referendum. That in turn will require endorsement by the Westminster parliament. Northern Ireland secretary Sir Patrick Mayhew has said also that the scope and authority of any cross-border institution would not be defined by London and Dublin. Instead joint authority would exist only to the extent to which a new Belfast assembly agreed to devolve power to the North/South institution.

London and Dublin must now act quickly to rescue the framework document. It may be that the opposition of the unionists already has become so entrenched that the proposals cannot get a fair hearing. Any significant further delay will ensure that is so. Mr Major could reinforce the message of reassurance by stating unequivocally that his government will never act a "persuader" in the cause of a united Ireland.

Sinn Féin also should see a warning in the events of this week. The IRA's decision to end its campaign of violence in Northern Ireland has not given the Republican movement a veto over political developments in the province. It is time for the leaders of Sinn Féin to add substance to their claim to have eschewed violence. The IRA must start decommissioning its weapons.

For their part the unionists should pause. They are under no obligation to accept any document presented to them. But they should be ready to consider it in full. The opportunity for peace is too important to be lost on the basis of a leaked draft.

Safety first

Yesterday's twin half-point rise in both official US interest rates was Mr Alan Greenspan's seventh attempt to slow the economy in the current cycle. In the 362 days since the Federal Reserve chairman's first increase, the US economy has grown by around 4 per cent, and produced 3.4m more jobs, a 14 per cent jump in business investment, and post-tax increases in personal income and profits of around 5¼ and 12 per cent, respectively.

Set against such buoyancy, some will argue, a combined rise in the federal funds rate of 3 percentage points over the period is overly cautious. But inflation too has been modest, ending the year at 2.7 per cent, very close to where it was at the start of 1994.

The difficulty Mr Greenspan faces is that the economy is sending mixed signals. Recent data has provided some grounds for thinking that higher interest rates are beginning to bite. Yet there has also been somewhat firmer evidence of rising price pressures.

With a half-point rise, Mr Greenspan has characteristically decided to play it safe. At 6 per cent, the rate on federal funds is now moderately restrictive; in real terms, standing above its long run average of 3 per cent.

As ever, it will be up to two years before before one can judge whether yesterday's rise brought a soft landing for the economy any closer. Yet the economic data over the next couple of months will at least provide a clearer picture of current inflationary pressures. If these prove to to be more firmly entrenched than many hope, Mr Greenspan may have to act an eighth time. With luck, however, his moderation will be rewarded, and yesterday's rise will be the last for some time.

EU and Turkey

Today's meeting in London between Turkey's foreign minister, Mr Murat Karayalçin, and his British, French, German and Italian colleagues offers possibly the last chance to break the impasse between Turkey and the EU over a proposed customs union. No decision was taken at the last official ministerial meeting between Turkey and the EU on December 19, because of a Greek veto.

How, the Turks ask, can western Europe allow its collective interests to be overidden by one small member state? They are both wrong and right to ask that question. Wrong, in so far as it betrays a profound misunderstanding of one of the central operating principles of the EU, which is that one member state *can* block a decision on an issue about which if feels strongly enough. But right, in that other member states have not yet brought their full persuasive powers to bear on Greece, because they feel that Turkey in its present condition is a difficult country to help. The decision of its state security court to impose long prison sentences on eight Kurdish MPs shortly before the December 19 meeting left Turkey without friends in Brussels.

The first task of the four ministers today is therefore to tell Mr Karayalçin some home truths. First, European governments have to take account of public opinion, which will not sympathise with Turkey when the news from there is mainly about human rights violations and the use of ruthless counterterror against Kurdish separatist guerrillas.

Second, Greece's position cannot be simply ignored. However good the abstract arguments for treating Cyprus as a separate issue, that is not going to happen. Historically, both sides have much to answer for in the Cyprus conflict. But at present the perception in western Europe, as in the US and at the United Nations, is that the Turkish Cypriot leader, Mr Rauf Denktaş, has become the main obstacle to a solution. Only Turkey has any leverage over him, and it is not surprising that Greece is trying to use the leverage over Turkey which EU membership gives it.

Happily, the Greeks are not insisting on a full settlement of the Cyprus issue as the price for allowing the customs union with Turkey to go ahead. Instead they have set their sights on a timetable for negotiations on Cyprus's EU membership. It seems the French presidency has now informally agreed a deal with Greece, under which a green light will be given for the customs union with Turkey at the end of this year, and a date (probably in 1997) for opening of negotiations with Cyprus will be fixed, at separate but simultaneous meetings to be held on March 6.

Turkey will certainly not like this, since its own application for full membership has been shelved *sine die*. But although a political settlement first would be desirable, it cannot be an absolute precondition. Economically Cyprus, a small state with a high per capita income, presents none of the difficulties that Turkey does as a prospective EU member.

The Greeks must now be persuaded not to up the ante further, and the EU would be better advised not to block the customs union as a way of putting pressure on Turkey over human rights. Turkish politics are at present on something of a knife edge, with a real danger that popular frustration will bring an anti-western Islamic party to power. Many forces in Turkish society are working to resist this, and to bring Turkey closer to west European standards of democracy and human rights. It must be in the EU's interest to strengthen those forces, which it can best do by accelerating the customs union, not delaying it.

Weakness exposed in bank siege

The battle for Credito Romagnolo highlights problems inherent in Italy's financial system, says **Andrew Hill**

After more than three months fending off bidders, like a medieval Italian city state under siege, Credito Romagnolo (Rolo), the Bologna bank, now looks likely to lose its battle for independence.

When bidding closes tomorrow, Credito Italiano (Credit), the former state-controlled bank that was privatised in 1993, will almost certainly take a majority stake. More than half Rolo's shares have already been committed to its L3,770bn (£1.5bn) offer, and a rival consortium led by Cariplo, the unquoted Milan savings bank, has in effect withdrawn its lower counterbid.

Much of the battle has been fought on local territory, with Bologna's parish priests, cardinals, entrepreneurs and ex-communists rallying to support "their" bank against Credit's assault. Credit's supporters say success will represent a firm step towards consolidation of a weak and fragmented banking system.

But the battle for Rolo has revealed that the Italian financial system is still dogged by a lack of transparency and weak regulation. Credit's victory looks to many like a triumph for the economic establishment, represented in its purest form by Mediobanca, the Milan merchant bank which since the war has established an unparalleled influence over the Italian corporate sector.

Orderly and rapid reform of the banking system is widely agreed to be an important objective for Italy. Mr Lamberto Dini, confirmed yesterday as prime minister, told the Italian parliament last week that the privatisation of publicly-owned banks was essential for the modernisation of the Italian economy.

For more than 50 years, Italian banks were governed by a 1936 law passed by the fascists. In the interests of stability, this prevented Italian banks from opening branches outside their limited territory, restricted the services they could offer (in particular medium- and long-term lending), and all but ruled out mergers. The result was often stagnation and inefficiency, with many of the publicly-controlled banks turned into fiefdoms for local politicians.

Freed by banking reforms introduced in the 1990s, Italian banks have tried to catch up. State-controlled institutions such as Credito Italiano and its Milan-based neighbour, Banca Commerciale Italiana, have built national branch networks. Others owned by charitable foundations – such as Cariplo, and Italy's biggest banking group, San Paolo di Torino – have sought to lose their political taint and expanded through alliances with local banks.

Until 1993, there had been few significant attempts to expand via merger or takeover. Credit's approach to Rolo last October, and the L1,040bn bid by Banca Popolare di Verona, a north Italian regional bank, for Banco San Geminiano e San Prospero a year earlier were therefore welcomed as a sign that the process of consolidation and modernisation was speeding up.

The bid for Rolo, however, demonstrates that Italy's banking system still has a way to go before it can claim that reform has succeeded. Neither bidder can claim to be fully representative of a new and modern Italian banking system: both still have their roots in the old banking establishment.

Cariplo is the largest of Italian savings banks, some of which are strongly resisting Mr Dini's attempts to encourage privatisation. Last year Cariplo planned to float some of its shares, but withdrew the capital-raising issue because of adverse market conditions.

Shares in Credit, by contrast, are already quoted, following the successful sale in December 1993 of the Italian state holding company's 67 per cent stake. However, Credit is traditionally linked to Mediobanca, which sells its bonds through the branch network of Credit and its neighbour, Banca Commerciale Italiana. Corporate allies of the secretive and influential Milan merchant bank bought shares in Credit at privatisation. Even if the main strategic decisions were taken by Credit's board, Mediobanca was widely held to be the *éminence grise* behind the bid for Rolo.

Supporters of Credit said a takeover by the Cariplo consortium would be a step away from wider share ownership. Supporters of Cariplo – including Rolo's top management – have indicated that a victory for Credit could simply expand the unhealthy influence of Mediobanca over the Italian financial and corporate system.

ITALY'S BIGGEST BANKS

	Assets (Lbn)	Branches
San Paolo Di Torino	188,918	959
Banca Di Roma	152,655	1,225
Credito Italiano & Credito Romagnolo	144,645	997
Cariplo	123,622	651
Banca Commerciale Italiana	115,813	689

Source: Italian banks' 1993 results

Moreover, the bid has exposed weaknesses in banking supervision and the regulation of takeover bids, tested to the full for the first time during the past three months. There have been complaints from both sides over the handling of the Rolo bid by the two regulators involved – the Bank of Italy, which supervises the banking sector, and Consob, the stock exchange watchdog which regulates takeovers.

The Bank of Italy was criticised for its sluggishness in giving the go-ahead for Credit's initial bid for Rolo, while it hurried through approval of Rolo's alternative defensive plan for a merger with another local bank.

Cariplo and its allies were even more bitter about a decision by Consob two weeks ago that prevented them from relaunching their offer after an increased bid from Credit. In contrast to US or UK takeover rules which limit only the timescale for a bid, the Consob decision establishes a precedent that favours the opening hostile bid in any takeover attempt. It has prompted calls for clarification or reform of the rules.

Once the dust has settled, the real test of whether Credit's long-winded attempt to gain control of Rolo can be counted a success – and a valid precedent for further consolidation in the sector – will be the development of Rolo under its new masters.

One of Credit's objectives has been to catch up with its foreign counterparts in size and financial clout. Should Credit succeed in taking over Rolo, it will still be only third in the ranking of Italian banks, based on 1993 assets. As Mr Lucio Rondelli, Credit's chairman, pointed out two days ago when explaining the rationale for the Rolo bid, even the biggest bank is small by comparison with other European competitors. "San Paolo ... is still much smaller than major European banks like Société Générale or National Westminster," he said.

Sheer size, however, will count for nothing if Credit does not immediately restore good relations with an embittered Rolo management. Credit's attempt to forge local links, to complement its national and international contacts, depend on retaining the goodwill of Rolo's entrepreneurial clients in Emilia Romagna, one of Italy's most prosperous regions.

This is the part of the process which will be most keenly watched by other large Italian banks like Banca Commerciale Italiana – thwarted last year in its own attempt to buy Banco Ambrosiano Veneto – and international banks, which have largely fought shy of investment in the Italian market.

Of the foreign banks, only Deutsche Bank has made a real operational success to date of investment in Italian retail banking, buying Banca d'America e d'Italia (BAI) from Bank of America in 1986. Earlier this year, it took the important step of changing the name of the original BAI branches to Deutsche Bank, while underlining its attempt to "act locally".

Credit has given guarantees that it will preserve Rolo's local identity and autonomy. But this has not soothed fears that Credit will have to press ahead with integration of the bank to reap the returns of its hefty investment in Rolo.

If local opposition to the Credit takeover evaporates quickly, and Credit is able to establish itself as a national bank with local roots, as it wants to, then Italy will have taken an important step towards modernising its banking system. If, however, Rolo's clients migrate to other regional banks, there is a risk that Credit's victory will be Pyrrhic.

Michael Dempsey on Europe's air traffic control plans

Efficiency in the skies

Air traffic over Europe is expected to double by the end of the decade, growing 6.5 per cent this year and 7.1 per cent in 1996. By 2000, European air traffic is expected to rise to about 650m passengers.

Reconciling that growth to the flight slots available and making the most of airspace have traditionally been the domain of national air traffic control bodies. But an organisation founded more than 30 years ago is developing a pan-European solution to the problems of congested airspace and flight delays.

This is a step towards the single European airspace envisaged by Mr Neil Kinnock, the new European transport commissioner, who pledged recently to tackle airport delays caused by Europe's competing air traffic control systems.

Progress has been slow, although European governments have been increasing their investment in national control systems in recent years. European states plan to spend $2.5bn on air traffic services over the next three years.

Eurocontrol, the pan-European organisation based in Brussels, is co-ordinating improvements under the European Air Traffic Control Harmonisation and Integration Programme (Eatchip), funded largely by national governments.

In 1993, Eurocontrol set up the Central Flow Management Unit (CFMU), which is intended to provide a clear picture of the routes ahead for aircraft before they take off. Its long-term aim is to integrate the various national systems, beginning by providing radar separation between aircraft in the highest density airspace over western Europe.

Currently, five centres co-ordinate the allocation of slots at airports – in London, Paris, Rome, Frankfurt and Madrid. By May, this will all be achieved from Brussels, with CFMU the sole slot-management body in western Europe.

Slot-management is intended to avoid costly delays while aircraft circle overhead waiting to land. But combining the several segments of a flight plan means changing the process by which these plans are filed. This is done through the Initial Flight Plan Process System, a computer database which aims to draw together information from the various member systems.

There are 51 air traffic control locations applied across the Eurocontrol area, and 32 types of computer system back these up. The database runs on an Amdahl mainframe computer and loads scheduled flight plans six months ahead of take-off. This information is accessed by the central flow management unit in Brussels.

The computer collects flight plans from each airport via telecommunications lines, abolishing the need for individual phone calls between controllers. Two flight plan centres are entering service, in Belgium and France. Either centre can step in if the other fails.

An important piece of the air traffic control jigsaw is the Tactical System. This takes flight plan data from the main database and allocates departure slots for 20,000 flights a day. While most of the CFMU project relies on off-the-shelf software, the Tactical System is run by software developed in-house at Eurocontrol, called the Computer-aided Slot Allocation programme. It refers to every factor that may influence a flight plan and assesses whether a pilot requires rerouting or a new slot. The data are programmed into the memory of the mainframe computer, which makes it almost impossible for the information to be erased or changed accidentally.

The system is due to start handling active flight plans in western Europe later this year.

Eurocontrol says that safety will not be jeopardised. It argues that the system will be more efficient, cheaper and able to take greater capacity than current systems. "We are just trying to get more aircraft into the system while making sure they can be safely handled by computer," says a Eurocontrol official. "The technology is just taking the routine tasks away from the ground controllers."

Although the overall CFMU project is only in operation for 16 hours a day at present, Eurocontrol claims benefits already. Mr Yves Lambert, Eurocontrol director general, has said: "Only 7.4 per cent of European flights were delayed for longer than 15 minutes in 1993, as opposed to 12.1 per cent in 1992."

The reduction in flight delays has saved airlines Ecu650m ($520m) a year, says Mr Lambert, more than 10 times the project's annual budget. But Eurocontrol is still a long way from having a complete radar picture of its traffic area, relaying data from every national radar site and air traffic control centre in real time.

One development, however, is the creation of software on standard personal computers, displaying radar data and supplying automatic forecasts of potential collisions. The system – called the Operational Display and Input Development – is said to have impressed controllers from the US. This is important in a business overshadowed by transatlantic rivalry.

No matter how successful Eatchip is in smoothing out the differences between national working practices, there are still problems in reconciling air traffic control practice worldwide.

Will the world ever share a common method of organising flights safely and efficiently? Mr Pierre Olivier-Jeannet, CFMU project manager, believes that is some years away. "My view is that it will be very difficult to standardise every air traffic control system while many basic procedures are so different."

OBSERVER

Smooth, soft and sweet

■ Ben & Jerry's, the Vermont, US-based ice-cream manufacturer, has finally found itself a new chief executive.

Last June the company startled corporate sentiment by inviting all-comers to submit 100-word essays to support their applications for the job.

After sifting through more than 20,000 entries – as well as hiring a headhunter – Robert Holland, whose favourite Ben & Jerry's flavours include Cherry Garcia and Chocolate Chip Cookie Dough, has scooped the prize.

Holland has more to his cv than simply liking ice-cream. Thirteen years at McKinsey and more than a decade in corporate management will come in useful for sorting out the difficulties at Ben & Jerry's. In December it said it would make a loss in the last quarter of 1994, and has also had problems with a new $38m plant.

But since it was founded on principles more commonly found at Woodstock than on Wall Street, Holland inevitably also had to possess "warmth of spirit" to fit into Ben & Jerry's capitalist-with-a-conscience ethos.

A slightly dented ethos; in hiring Holland, the company has dropped its seven-to-one ratio of highest to lowest salary, meaning he gets an annual basic salary of $250,000, plus bonuses up to $125,000 and share options.

Not forgetting as many tubs of the stuff as he can eat.

Holland's 100-word free verse essay, entitled "Time, Values and Ice Cream" concludes: "With miles to go before we sleep and time left yet to get there. Only in America!"

Room for a whole new flavour in that: Sycophantic Strawberry.

Crowning glory

■ Nelson Mandela *will* be pleased – the new South Africa is getting some symbolically important investment from Albert Bongo, president of Gabon.

African leaders traditionally make provision for what might be called their lack of job security by buying chateaux in Switzerland.

But Bongo has opted for Franschhoek, a picturesque valley known for its wine in South Africa's western Cape province, where he has bought a vineyard for $1.6m – the second highest price ever paid for a Franschhoek vineyard. Called Champagne Lodge, the vineyard has about 100 acres and produces wine under the La Couronne label.

Mandela visited Gabon in 1991, where he warned against premature ending of sanctions against the then still apartheid-ridden South Africa.

How times change. Smart money take note; African presidents generally manage their overseas interests with considerably more success than their domestic economies. Though with annual per capita income at about £3,000, Gabon is a relatively wealthy African country.

Bongo, who has been president of Gabon since 1967, already has a couple of palaces in Libreville, Gabon's capital.

But it's always nice to have a small hidey-hole where you can get away from the stresses of running a country.

Herr today

■ Has Helmut Kohl considered how his extraordinary attempts at television censorship might be received in east Germany?

Sat-1, Germany's independent commercial TV channel owned by the conservative Springer media group, is right behind the chancellor. As is ZDF, the second federal channel.

But Kohl seems to take exception to mildly dissident voices on Cologne-based Westdeutscher Rundfunk.

WDR, the largest channel in the country's premier network ARD, does indeed have Social Democratic leanings.

But its treatment of the government – for example, in the monthly programme *Monitor* – is mild in the extreme compared with the sort of lampooning to which British politicos are subjected.

All the same, thin-skinned Kohl is attempting to reduce WDR's reach by moving to break up ARD's federal structure.

Welcome to the plurality of views west of the Elbe. As WDR director Friedrich Nowottny puts it: "We had this terrible word during the Nazi times. It was *Gleichschaltung* – making all opinions the same."

Golden speech

■ Buy this for your boss; he might thank you. Bob Nelson's latest book – *1001 Ways to Reward Employees* – is packed with examples of how companies reward employees in a "low-cost" (ie no-cost) fashion.

They include the "You Done Good Award", a card printed in batches by Tektronix, an Oregon electronics producer. Employees give the card to one another in order to register praise.

Elsewhere, Philadelphia city authorities put the name of an outstanding worker in lights on a skyscraper.

Whenever Federal Express buys a new aircraft, the name of an employee's child is written in large letters on the nose. Xerox apparently prefers a more Pavlovian style, ringing a bell when someone performs well.

"Thanking employees ... doesn't take a lot of money. It takes a little time, a little thoughtfulness and a little creativity to turn any employee into a highly motivated individual," says Nelson, who is a vice-president at Blanchard Training & Development in San Diego, California.

The Financial Times

100 years ago

Commercial Bank of Australia
Melbourne: The half-yearly meeting of the Commercial Bank of Australia was held here today. The Hon James Service presided, and made a hopeful speech in moving the adoption of the report and balance-sheet. The liabilities of the new bank amounted to £1,800,000, against which there were good assets, easily manipulated, of £4,900,000.

50 years ago

Bankers' Money Plan
New York: In its first official stand taken on the Bretton Woods monetary plan, the powerful American Bankers' Association will soon release alternative proposals to the documents worked out at the international Financial Conference last July.

The proposals ... contain the following points:
The repeal of the Johnson Act, which at present forbids American lending to European countries which have defaulted on their World War One debts ... [and] The creation of an International Reconstruction Bank – similar to the Bretton Woods Bank – which would include facilities for establishing currencies all over the world.

FINANCIAL TIMES
Thursday February 2 1995

Dykes start to crack as Dutch floods near peak

By Our Foreign Staff

Floodwaters are expected to peak today in eastern regions of the Netherlands, where a further 30,000 people yesterday joined the 225,000 already evacuated from threatened homes in low-lying areas.

The build-up of pressure yesterday began to crack riverside dykes around the village of Ochten, in the centre of the country, as concerns increased about the ability of the dyke system to hold back the floodwaters.

In Germany, where the danger has receded, flood damage was estimated to have reached DM1bn. Four people have died there over the past week. The floods have prompted debates in Germany and the Netherlands over whether past environmental concerns about river and dyke development have left the countries vulnerable.

The Dutch cabinet yesterday began to consider how to compensate people for financial losses suffered in the worst floods since 1927 and the second to hit the country since Christmas 1993.

Meanwhile, the European Commission decided to set up an Ecu1.5m ($1.8m) aid fund and establish a working party to study how to deal with the problem on a European level.

The threatened collapse of dykes has provoked an anguished debate within the Netherlands, where environmentalists have long opposed replacing earthern structures with modern concrete walls.

In Germany, the powerful environmental movement has opposed construction of unsightly flood defences along the steep valleys of the Rhine. Some walls were built upstream, near the river's source, but the country is debating whether these measures have heightened the flood problems downstream.

Rows have broken out between the Länder (states) downstream in north Germany and their counterparts upstream in south Germany, which are accused of worsening the floods in the north by refusing to open their own overflows.

The environmental lobby in Germany and the Netherlands has blamed artificial controls upstream and modifications to the Rhine, which have narrowed and straightened the river to assist the barge transport industry.

Ms Annemarie Jouritsma, the Dutch transport minister, said the Rhine may have to be widened to ease the pressure of excess water.

The level of the Rhine at Lobith, on the Dutch-German border, fell slightly to just above 16.5m yesterday, though this remained well above the river's normal winter height of 10m.

Politicians bicker over floods blame, Page 2

Japan considers tax rise to fund Kobe rebuilding

By William Dawkins in Tokyo

The Japanese government is considering a tax increase to fund the rebuilding of Kobe, devastated by an earthquake last month.

Mr Kozo Igarashi, chief cabinet secretary, yesterday revealed that one option would be to bring forward a planned 1997 rise in sales tax, to ensure that the costs of the quake, in which more than 5,000 people died, do not lead to uncontrolled growth in the budget deficit.

An early increase in the sales tax – from 3 per cent to 5 per cent – would be supported by the finance ministry. Another option would be to withhold an income tax cut planned for this year, according to government officials.

But the prospect of a tax rise prompted opposition yesterday from the Keidanren business federation. Mr Shoichiro Toyoda, the federation's chairman, said the government should carry out this year's tax cut as planned and concentrate on stimulating the economy.

A tax rise would also rouse concern in the US and the European Union, where an increase in Japanese demand for imported products would be welcome, while any measure that could prompt consumers to reduce spending would be opposed.

Estimates of the earthquake damage vary from Y8,600bn ($87bn) by the Hyogo Prefecture, Kobe's local government, to Y13,000bn by the Keidanren. The figures have climbed steadily over the past two weeks as details of the damage have become clear.

Mr Igarashi's remarks suggest a revision in the ruling coalition's original plan of issuing government bonds to cover the costs of the quake. The shift reflects the finance ministry's deep reluctance to increase the budget deficit, already set to reach nearly 6 per cent of gross domestic product this year on estimates by the Organisation for Economic Co-operation and Development.

Despite Mr Igarashi's tax warning, the Liberal Democratic party, dominant member of the coalition, still wants to issue bonds and tap Japan's vast pool of post office savings to pay for the quake.

The finance ministry, the most powerful government department, usually succeeds in obtaining a respectable compromise. It has long argued that the sales tax should rise to 7 per cent, rather than the 5 per cent agreed last year after a bitter wrangle which contributed to the collapse of a government.

Japan's latest tax row is unlikely to hinder the immediate rescue effort, since all sides have agreed to pass a supplementary budget by the end of this month.

LEX COLUMN

Pointing to the peak

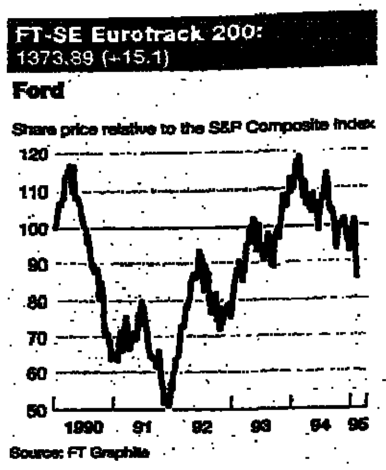
With the latest increase in US interest rates out of the way, the next game for financial markets will be speculating how much further they have to rise. Some pundits will argue that the new 6 per cent rate represents the peak. They can point to tentative signs that the economy is slowing and the fact that inflation remains fairly subdued; so further increases would constitute overkill.

Such a thesis may be correct. But, unless there are stronger signs of a slowdown in the coming months, it would be risky to bank on it. The safer play would be to tighten the monetary screw a further notch or two by mid-year before sitting back and waiting for more compelling evidence of a slowdown. It would be better for rates to rise to a genuine peak of 7 per cent than for a false peak of 6 per cent to be declared only to find that rates need to be raised still higher at a later stage.

FT-SE Eurotrack 200: 1373.89 (+15.1)

Ford

Share price relative to the S&P Composite Index



Source: FT Graphite

Paribas

Paribas' full-year results flatter to deceive. A 17 per cent rise in 1994 net income looks respectable. But the increase is from a low base: last year's earnings of FFr1.7bn remain 50 per cent below 1989 levels. Moreover, the results' composition highlights continuing problems at the French bank. While the 19 per cent fall in provisions for doubtful loans is welcome, it is worrying that the reduction was the only factor driving earnings growth.

At the operating level, Paribas is going backwards. The 8 per cent drop in operating profits is despite the recovery of the French economy. The group's volatile trading revenue suffered from low volumes and falling prices in the equity and bond markets. And ever-persistent problems in the French property market also held back the company, as did poor loan volumes. But the operating results would have been even worse – down about 15 per cent – without a FFr1bn capital gain from the sale and leaseback of three of Crédit du Nord's headquarters buildings.

Paribas may be trading on a discount of about 7 per cent to book value, but it does not look cheap. Further property provisions remain a possibility. The potential for trading profits growth looks bleak given the state of the markets. As for investment banking income, there is a serious danger of a rise in German interest rates later this year strangling the French recovery – and corporate borrowing – before they really get going. The chances of a re-rating remain slim.

US car manufacturers

It is a year since share prices for the big three car manufacturers reached their peak after several years of outperformance. Since then there has been a sharp difference of opinion between Detroit and Wall Street over the state of the industry. Share prices have fallen by between 25 and 37 per cent over the year, reflecting the Wall Street conviction that the industry is nearing its cyclical peak. The companies have responded with one set of excellent figures after another.

Yesterday's numbers from Ford, confirming the pattern established by the other two companies, show an especially robust fourth quarter. Coupled with the company's protestation that there has been no slowdown in the year to date, and that none is in sight, Wall Street is beginning grudgingly to revise its opinion in Detroit's favour.

But the rise in share prices in the past few days still leaves the companies at absurdly low valuations: the three trade on multiples of 4.5 to 5 times earnings for the current year. This is about a third of the level of the US market as a whole, implying a steep tail-off in earnings after the cycle peaks this year. There are indeed signs that the US industry has reached a plateau – for example there has been a revival of incentive schemes to sell cars – but the Wall Street view is still excessively pessimistic. Further re-rating is in order.

UK underwriting

The Office of Fair Trading believes the commissions charged for underwriting UK rights issues are excessive. The evidence – notably a study by the London Business School's Professor Paul Marsh – looks compelling. Now the matter is likely to be investigated by the Monopolies and Mergers Commission. Its hardest task will be to decide what should be done to remedy the situation.

One solution would be to regulate the fees – say, by cutting the current flat 2 per cent rate to 1 per cent. That might remove the excess profits. But it would be crude, in that all issues would still be covered by the same fees irrespective of their relative riskiness. It would also be dangerous; if the rate was mistakenly set too low, underwriting capacity might dry up.

Encouraging companies to shop around for better deals looks a better option. The snag is that few are willing to do so for fear that their fund-raising plans will leak – even though it is hard to see why that is such a bad thing. Another option would be for companies to launch deeply discounted rights issues, which avoid the need for underwriting. The problem is that boards do not like the prospect of having to pay out a higher overall dividend given the larger number of shares in issue – though they could get round this simply by cutting the payout per share. Shareholders would not suffer since the total dividend cheque they received would be no different. If the Monopolies Commission can find a way round such corporate timidity, its investigation will be well worthwhile.

Vodafone

Yesterday's heavy selling of Vodafone shares might seem overdone. After all, the current-year profits downgrades prompted by its trading statement were caused by the fact that mobile phone connections are growing faster than expected. Higher upfront commissions will be paid to intermediaries who have brought in the business. But one would have thought that future profits should benefit from the larger customer base. The only problem with this interpretation is that the company did nothing to deter analysts from downgrading next year's profits too, leaving the suspicion that something else is afoot.

Additional Lex comment, Page 20

Clinton gets support

Continued from Page 1

systems to detect problems before they get out of hand.

The IMF board of executive directors was due to meet yesterday afternoon to consider the $17.8bn loan, which would be made available to Mexico as a traditional IMF standby credit.

Provided the board approves the decision, the $7.8bn the IMF originally agreed last week to lend Mexico could be drawn when the banks open this morning. The remaining $10bn must be collected from member countries and would become available over the next 18 months.

Mr Gingrich rebuked of Congress members who have been demanding Mexico meet conditions on issues ranging from immigration to privatisation.

The Mexican peso rose to 5.45 to the US dollar at midday, up from Tuesday's close of 5.75 and a 13 per cent gain since Monday. Short-term interest rates fell sharply – with 28-day peso-denominated government bills yielding 32.57 per cent, down 4.44 percentage points from last week.

Analysts cautioned that these rates were still high enough to cause problems for the banking system and for companies seeking working capital. The main IPC index of the Mexican stock market was down 2.48 per cent at midday.

London banks face probe of share fees

By David Wighton and Norma Cohen in London

The UK Office of Fair Trading is planning to refer the whole system of equity capital raising in London to the Monopolies and Mergers Commission.

Sir Bryan Carsberg, director-general of fair trading, wants the commission to examine whether fees for underwriting share issues are too high and whether merchant banks advising companies face conflicts of interest.

Any change to the system of fixed underwriting fees could have a profound impact, threatening the profits of institutional investors and the independent merchant banks. Some observers believe it could hasten consolidation among firms in the City of London and accelerate the trend towards US-style integrated investment banks, combining advisory and broking arms.

The Treasury is thought to be supportive of the OFT's move because of worries that high underwriting fees increase UK companies' cost of capital.

The independent merchant banks, such as Schroders and Hambros, represented by the London Investment Banking Association, have lobbied hard against a reference to the commission, arguing that an investigation would damage London's reputation as a financial centre.

They also tried to prevent the publication of a study, commissioned by the OFT, which concluded that institutional investors earned excess profit of about £289m from sub-underwriting rights issues for UK companies between 1986 and 1993.

Companies pay underwriting fees to guarantee that new shares in a rights issue will be bought. The new shares, offered to existing shareholders, are generally priced at a discount of about 15 per cent to the market price. If this falls below the rights price before the issue closes, shareholders are unlikely to take up their rights and the underwriters are required to buy the shares.

For more than 30 years there has been an informal fixed fee structure, with the underwriting fees amounting to 2 per cent of the sum raised.

The OFT will ask the MMC to look at all the fees including those for the lead underwriter, which many companies feel are too high. The MMC will look at rights issues and flotations.

The OFT is worried that the underwriting process inhibits competition and that merchant banks face a conflict of interest as both financial adviser and lead underwriter.

See Lex

Summit aims to rescue peace process

Continued from Page 1

elections to a Palestinian authority, the redeployment of Israeli troops in Palestinian areas and the release of Palestinian detainees.

But diplomats in the region said there was little evidence that specific initiatives would be discussed, and described the summit as a high-profile attempt to inject life into a process which has been viewed with increasing scepticism among Palestinians, Israelis and other Arabs.

The summit comes at a period where Israel's peace talks with Syria and Lebanon have also come to a standstill.

Neither will be represented at today's meeting; both countries eschew direct official contact with Israel.

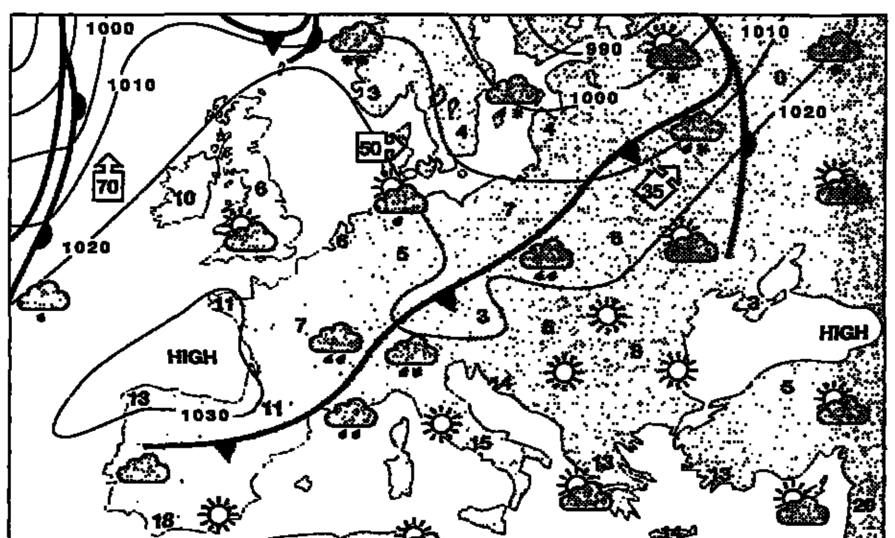
FT WEATHER GUIDE

Europe today

The Netherlands will have sunny spells with occasional showers in the north. High pressure will dominate much of western Europe bringing dry conditions and sunny spells to the British Isles, western France and the Iberian peninsula. A weak frontal system from Russia to southern France will bring snow to Russia and rain to Poland, the Czech Republic, southern Germany and the northern Alps. The Balkans and Italy will be sunny. High cloud will dim the sun in Greece and Turkey. The clouds are associated with low pressure near Libya which will bring thundery showers to Crete and Malta.

Five-day forecast

High pressure over central Europe will bring dry conditions to western and central regions. A frontal system with rain will focus on the northern British Isles and southern Scandinavia. A mixture of sun and cloud is expected in western Europe but the Balkans and Italy will be sunny. Central and northern Spain will be dry but rather cloudy and southern Spain will be mainly sunny.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	fair	24
Accra	fair	32
Algiers	cloudy	19
Amsterdam	fair	6
Athens	fair	13
Atlanta	fair	15
B. Aires	cloudy	30
B.ham	sun	4
Bangkok	sun	34
Barcelona	fair	14
Beijing	sun	5
Belfast	cloudy	6
Belgrade	sun	5
Berlin	cloudy	7
Bermuda	shower	22
Bogota	fair	22
Bombay	sun	34
Brussels	fair	6
Budapest	fair	6
C.hagen	sun	4
Cairo	fair	21
Cape Town	fair	25
Caracas	fair	29
Cardiff	fair	5
Casablanca	sun	18
Chicago	cloudy	1
Cologne	cloudy	7
Dakar	fair	26
Dallas	sun	23
Delhi	sun	23
Dubai	fair	24
Dublin	cloudy	8
Dubrovnik	sun	15
Edinburgh	fair	4
Faro	cloudy	18
Frankfurt	rain	6
Geneva	rain	8
Gibraltar	sun	18
Glasgow	fair	4
Hamburg	shower	5
Helsinki	fair	2
Hong Kong	cloudy	15
Honolulu	fair	29
Istanbul	sun	8
Jakarta	shower	30
Jersey	fair	10
Karachi	sun	27
Kuwait	cloudy	24
L. Angeles	sun	26
Las Palmas	fair	21
Lima	cloudy	29
Lisbon	cloudy	16
London	sun	5
Lux.bourg	cloudy	4
Lyon	rain	6
Madeira	cloudy	19
Madrid	cloudy	11
Majorca	fair	16
Malta	shower	16
Manchester	sun	5
Manila	cloudy	30
Melbourne	shower	29
Mexico City	shower	24
Miami	fair	22
Milan	sun	11
Montreal	snow	-6
Moscow	snow	1
Munich	rain	6
Nairobi	fair	28
Naples	sun	15
Nassau	fair	25
New York	cloudy	4
Nice	cloudy	13
Nicosia	sun	20
Oslo	sun	1
Paris	fair	6
Perth	sun	30
Prague	rain	5
Rangoon	fair	32
Reykjavik	rain	4
Rio	shower	29
Rome	sun	14
S. Frsco	fair	19
Seoul	fair	1
Singapore	shower	29
Stockholm	cloudy	1
Strasbourg	rain	4
Sydney	fair	26
Tangier	fair	18
Tel Aviv	fair	21
Tokyo	fair	8
Toronto	snow	-2
Vancouver	shower	12
Venice	sun	9
Vienna	fair	5
Warsaw	cloudy	9
Washington	fair	7
Wellington	cloudy	22
Winnipeg	snow	-3
Zurich	rain	4

FINANCIAL TIMES
COMPANIES & MARKETS
Thursday February 2 1995

IN BRIEF

Paribas up 17% at FFr1.7bn in year

Paribas, one of France's leading banking groups, reported estimated profits up 17 per cent to FFr1.7bn ($323m) for the year to December 31 1994 in spite of lower capital markets activity and a rise in property provisions. Page 16

Crédit Lyonnais to auction MGM cinemas
Crédit Lyonnais, the loss-making state-controlled French bank, formally put up for sale the European MGM cinema network as part of its strategy to dispose of assets. Page 16

Foster's chilly reception
Foster's, the Australian brewer, which has bought the Bohai Brewery in China's largest bankruptcy auction, has received a chilly welcome to its plans to slash the workforce and amalgamate the plant with the larger Tianjin brewery. Page 19

Expansion costs hit AirTouch
AirTouch, the California-based mobile telephone operator, has reported record customer growth in its first full year as a public company, with net earnings up 184 per cent for the year at $98m. Profits, however, fell sharply in the final quarter due to the costs of expansion. Page 17

Provisions cause RPR fall
Rhone Poulenc Rorer, the US pharmaceuticals subsidiary of France's Rhône-Poulenc, announced a fall in net profits last year to $332m from $409m, after the impact of restructuring provisions. Page 17

EMC gains market share from IBM
EMC, the leading supplier of "disk array" data storage systems used with mainframe and mid-range computers, reported record fourth quarter and annual results as the company continued to take market share from IBM. Page 18

Pulp friction
Pulp has once again become one of the world's hottest commodities. With suppliers unable to meet demand, industry experts are wondering whether the price will shoot through $1,000 this year. Page 21

Sun Alliance makes £100m provision
Sun Alliance, the large UK composite insurer, yesterday wiped £100m ($158.2m) off its 1994 profits by bringing forward projected losses from domestic mortgage protection policies caused by the high level of UK house repossessions. Page 20

Vodafone hit by fresh profits warning
Shares in Vodafone, the UK market leader in mobile phones, slipped yesterday after a warning that profits this year will be below expectations. The warning came despite record subscriber growth in the past few months. Page 20

Barclays to sell part of mortgage business
Barclays Bank has reached an agreement to sell a large part of its US mortgage business in a deal that is believed to have been valued at more than $250m. Page 20

January rally for government bonds
Government bond markets around the world rallied last month, with the US performing best and core European markets benefiting from a flight to quality from higher-yielding countries. Page 22

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
CKAG Col Pr	780	+	28
Henkel	544.5	+	10.5
Kaufhof	466	+	11
SAP AG	1163	+	71
Falls			
Asko	630	−	40
Kali & Salz	153	−	5.6
NEW YORK ($)			
Rises			
Airtouch Cms	28⅝	+	¾
Chrysler	45⅝	+	⅞
Ford	25⅝	+	⅛
Gen Motors	40⅛	+	1⅝
Falls			
Calex Grp	10	−	4½
Ultradata	3⅝	−	1⅞
LONDON (Pence)			
Rises			
Daily Mail A	1045	+	50
Kleinwort Bnsn	524	+	25
Ramco Energy	300	+	21
Falls			
QMI Ind	28	−	4½
Pwll Dwffryn	465	−	18
Sidlaw	159	−	14
TORONTO (C$)			
Rises			
Barrick Gld	28⅝	+	¾
Magna Intl A	52	+	1¼
Potash Corp	50½	+	1¼
Falls			
Acme Mills	22½	−	2¾
CT Financial	18	−	1½
Essex Corp	8⅝	−	1⅝
PARIS (FFr)			
Rises			
Air Liquide	738	+	11
AXA	228.8	+	14.6
Club Med	424.8	+	13.8
Ecco	810	+	24
GTM Entrepse	350	+	26
Falls			
Unibail	465	−	10
TOKYO (Yen)			
Rises			
Daikyo Inc	810	+	32
Kikkoman	785	+	42
Orient Corp	570	+	45
Falls			
Amada Co	895	−	35
Misawa Homes	1220	−	110
Tobishima	591	−	26
BANGKOK (Baht)			
Rises			
Dptanret	30.25	+	2.75
Saico	16.5	+	1.5
Thai Iron Wk	93.0	+	8.0
Falls			
Addison Grow	6.5	−	0.5
Charas Ins	96.0	−	5.0
Nakornthon	8.1	−	0.9

Hong Kong closed. New York and Toronto prices at 12.30pm.

Venture with Californian fund manager called 'Old Money meets Nouveau Riche'

Cazenove enters a brave new world

By Norma Cohen, Investments Correspondent, in London

Cazenove and Co, byword for the Establishment and elite connections in UK finance, yesterday took a step into a more adventurous future.

It announced its first joint venture, teaming up with an iconoclastic Californian fund manager.

Cazenove partners also signalled that for the first time the firm may be prepared to consider ventures for other parts of its business as well, in recognition of its need to grow in line with changes in the increasingly international nature of the UK investment banking business. "I think that if we see specific opportunities, we would consider them," a partner said. Cazenove's other businesses are corporate finance, stockbroking, international investment and money broking.

Cazenove is to form a new company with California-based Barr Rosenberg European Management to develop a global smaller companies index, to be known as the Cazenove Rosenberg Index. Mr Harry Henderson, partner at Cazenove in charge of its unit trust business, said the index would cover mature markets and would divide the world into North American, European and Pacific stocks.

Investment consultants described themselves as "astounded" by the link-up between Cazenove and Mr Barr Rosenberg, a former professor of economics at the University of California at Berkeley who led early academic research into mathematical investment models. The two are about as dissimilar as any two firms in fund management can get, they say.

After spectacular successes in the 1980s, in which Barr Rosenberg charged investment management fees more than two to three times the industry average, it saw a severe reversal in its performance. As a result, it suffered an outflow of clients and lost its aura as the darling of the US fund management industry.

Unlike Cazenove, however, it has had no qualms about aggressively marketing its talents, and culturally, consultants say, is the antithesis of its new partner.

While Cazenove staff are said to be allowed to wear only shoes with laces, Barr Rosenberg staff wear only casual clothing and occasionally trainers to their offices in California, according to former employees. "It's Old Money meets Nouveau Riche," said one consultant, noting that Barr Rosenberg's successes in the 1980s had left its senior partners "dripping in gold".

Mr Henderson said the link partly reflected Cazenove's recognition of its need to raise its profile in fund management, a business which investment banks worldwide are expanding. "We fully accept that we have to be more disciplined in fund management," he said. "In our performance it was an area where we had great successes and great failures," he acknowledged, and said that the firm had lost clients. He said an inability to articulate a coherent investment strategy rather than poor performance had led to the defections.

Privately, investment consultants say Cazenove's performance in its pension fund business has been below the industry median over the five years to the end of 1993. In that time, however, there has been outperformance in some years and significant underperformance in others, leading to an inconsistency which pension consultants have found discomforting.

Both Cazenove and Barr Rosenberg argue that existing indices of "small company" shares do not extend to small enough companies to capture the effect that investments in this sector can have on overall performance results.

Neither Cazenove, which has relied on traditional stock-picking methodology for the £7bn ($11bn) in assets it manages, nor Barr Rosenberg, an active quantitative manager with $3bn under management, has any interest in managing portfolios of stocks to track that index. "By definition, index-tracking leads to underperformance because of fees," Mr Henderson said.

Instead, the two firms hope other fund managers will use the index as a tool to measure their own performance in the small companies sector worldwide.

The very mention of the number-crunching practised by "active quants" – active quantitative investment managers – brings a curl to the lip of the traditional "active" fund manager.

The traditional approach to stock picking implies a canny manager who can sniff out an undervalued share by reading a company's accounts and sizing up its senior management.

But poor performance by too many of these managers has driven clients into the arms of active quants, who emerged in the US in the 1980s. Unlike passive quantitative managers, who simply construct a portfolio which tracks a key stock or bond index, active quants actually pick shares.

Active quants rely on large amounts of data about each share and how it has performed under various macro-economic conditions. Using extensive historical databases and sophisticated software, they identify the characteristics of shares likely to outperform in specific economic cycles. As a result, some firms have been spectacularly successful, significantly outperforming other active managers for years at a time.

Ms Susan Douse, partner at consulting actuaries R Watson and Co, says, however, that active quants have had difficulty in maintaining their spectacular success because they have proved slow to sense when market conditions have changed.

Productivity gains help Total to 15% advance

By John Ridding in Paris

Total, the French oil and chemicals group, overcame depressed market conditions to raise net profits by 15 per cent to FFr3.4bn ($640m) last year, the company announced yesterday.

Mr Serge Tchuruk, chairman, described the result as "honourable, if not satisfactory in absolute terms".

While expressing caution about the prospects for the oil industry, he said he believed the worst was over, adding that there was usually a gap of about 12 months between a recovery in general economic activity and revival in the sector.

According to the Total chief, the improvement in results reflected productivity gains and restructuring measures. He said costs had been reduced by about FFr600m last year and forecast a similar reduction for 1995.

Lower costs, along with improved volumes, offset a continued deterioration in the business environment.

The decline in the dollar, the weaker oil price, and a reduction of almost 30 per cent in European refining margins knocked FFr1.9bn off operating income, the company said.

Despite the adverse market conditions, Mr Tchuruk said Total was on course to achieve the strategic objectives it announced in 1990.

These include the doubling of production outside the Middle East by the year 2000, a target of 20 per cent of operating profits from south-east Asia by the same date, the development of its gas activities and continued productivity gains.

Oil and gas production outside the Middle East rose from 309,000 to 345,000 barrels per day last year, reflecting the contribution of new fields in Colombia, Norway and Argentina.

Production is forecast to grow to 390,000 barrels-equivalent this year and to 460,000 in 1996. Reserves also grew last year, rising from 4.06bn barrels to 4.3bn.

Mr Tchuruk confirmed that Total had been holding negotiations with Iraq ahead of the country's return to the international oil market. He said the group was ready to sign an agreement before the lifting of the embargo against Iraq, on the understanding that it could not take effect until after the removal of the embargo.

He said that many other oil groups were discussing deals in Iraq, but played down the impact on international oil prices of renewed exports from the country. "The markets have already anticipated the event," he said.

In Asia, Mr Tchuruk cited a series of projects. A refinery in Dalian in north-eastern China, in which Total has a 20 per cent stake, is due to start production this autumn. In chemicals, investment agreements were signed in Pakistan, India, China, South Korea and Thailand.

Mr Tchuruk said Total's balance sheet remained strong, with the debt to equity ratio stable at 23 per cent.

Referring to a pending change in US accounting practices, which prompted huge asset write-downs and a substantial loss at Elf Aquitaine, France's other oil major, Mr Tchuruk said there would be little impact on Total. "If anything needs to be done it will be for modest amounts," he said.

Hanson's health issue

Trevor Humphries

Lord Hanson (right), chairman of Hanson, faced health questions about the group's US mines. With him is Lord White. Story, Page 20

Ford doubles as growth continues

By Richard Waters in New York

Ford Motor yesterday predicted further substantial growth in the US and European car and truck markets after 1994 profits more than doubled from 1993.

After-tax earnings of $5.3bn were up from $2.5bn in 1993 and topped by $8m Ford's previous record year of 1988, when sales of US car and light trucks hit a peak.

Like other US car and truck makers, Ford's shares have been hit in the past fortnight by growing fears that the US market for new vehicles is slowing sharply in the face of higher interest rates. Ford itself said recently that it was cutting production at two US car plants.

Yesterday, though, the company predicted further growth for this year and 1996. Mr David McCammon, chief financial officer, said Ford expected to produce 5 per cent more vehicles in the first three months of this year than in 1994. "We believe this recovery and this cycle has a long way left to go," he said.

The rise in US interest rates over the past year has added less than $20 a month to the cost of financing the purchase of an average car and has not dented sales, Mr McCammon said. However, he added that car dealers are cutting their inventories to reduce interest costs, leading to a one-off reduction in demand.

Ford's 1994 profits benefited from a turnround in its European operations, which contributed to total earnings outside the US of $784m. This compared with a loss of $542m in 1993.

In the US, meanwhile, earnings doubled to $3bn. Profits from Ford's financial services businesses were $1.5bn, after a $440m write-off from the sale of its savings and loan operations, compared with $1.6bn in 1993.

For the final three months of 1994, net income came in ahead of expectations at $1.57bn, or $1.47 a share, up from $719m, or 65 cents a share, the year before. However, these figures were boosted by a $110m gain resulting to balance sheet adjustments from the devaluation of the Mexican peso. The devaluation will hurt earnings in the future as exports to Mexico fall sharply, Mr McCammon said, though he added that sales to the country represented only "1 or 2 per cent" of Ford's total.

Full-year profits were equivalent to $4.97 a share, compared with $2.27 in 1993.

Ford Europe results, Page 16

Battlefield models are deployed to manage derivatives

Balloon goes up on early warning systems

A US fund manager and a team of Israeli scientists are aiming to turn swords into swaps through the innovative use of computer techniques pioneered partly in defence work.

The venture – between Bloomington, Illinois-based GK Capital Management and Eventus R&D, a Tel Aviv-based team of scientists and software engineers, was agreed last month.

The deal will not rock the markets as both companies are relatively small. GK Capital Management manages more than $130m for institutional clients in international currency and foreign exchange programmes – while Eventus employs five Israeli and three Russian scientists and software engineers.

But the focus of their co-operation is a clue to the way in which capital markets and derivative businesses are borrowing technologies developed in the military, aerospace and nuclear field.

GK and Eventus aim to apply "non-linear" analysis – which attempts to make sense of apparently random movements in data and events – to money management and trading.

Eventus' team of scientists have backgrounds ranging from statistics and mathematics, to finance, physics, engineering, computer science, artificial intelligence and chaos theory. Some of their work was for the Israeli defence forces, says Mr Yoni Cheifetz, general manager of Eventus. Precise details of these connections are a secret but Mr Philip Berber, managing director of GK, says typical military applications of non-linear analysis include the development of electronic tracking systems. These are designed to anticipate the apparently erratic flight paths of attacking aircraft trying to evade conventional air defences.

Techniques of non-linear analysis are increasingly relevant for analysing and predicting the behaviour of financial markets, partially as a result of increases in volatility.

Although a number of companies enjoyed some success in deploying linear techniques to anticipate market movements in the 1970s and 1980s, the usefulness of these mechanisms declined in the late 1980s and early 1990s. "Traditional, fundamental, econometric models have recently also proven to be less successful in forecasting the direction of the global inter-related financial markets of the 1990s," says Mr Berber. In other words, price movements have become more random, especially since the late 1980s, with markets becoming less predictable.

GK Capital's trading and back office operation will enter positions in the cash and derivatives markets on a 24-hour basis using technologies developed by Eventus to analyse daily and intra-day price movements in foreign exchange, bonds, equity indices and commodities. Mr Cheifetz, says one of the areas his team is setting its sights on, is inefficiencies in the way hourly and daily data is collected and analysed on the foreign exchange markets.

More broadly, the link-up also reflects the broader drift of mathematical skills originally developed in engineering and physics to practitioners in the financial markets. "To actually analyse past movements of prices and manage the risks you need some complex mathematics," says Mr Anindya Bhattacharyya, editor of Derivatives Engineering & Technology, an industry newsletter.

"You need a sophisticated statistical model of how prices move in order to accurately price a derivatives instrument," he explains. "Conventional linear modelling techniques have limitations. As a result many banks are now experimenting with more avant-garde mathematical techniques."

Richard Lapper

Paribas up 17% despite capital markets 'bad year'

By Andrew Jack in Paris

Paribas, one of France's leading banking groups, yesterday reported estimated profits up 17 per cent to FFr1.7bn ($323m) for the year to December 31 1994 in spite of lower capital markets activity and a rise in property provisions.

A decline in profitability from capital markets was offset by lower provisions against doubtful loans and substantial sales of business stakes and other assets.

Mr Michel François-Poncet, chairman of the supervisory board, said that 1994 was "a bad year" for capital markets, and highlighted the impact of the financial crisis in Mexico. "Investors are becoming more selective in their choice of emerging markets and the future environment is likely to be tighter than before."

Paribas said total provisions against loan losses had fallen 19 per cent for the year to FFr7.1bn, although it was forced to make large new provisions of FFr1.7bn against property loans.

The value of the group's loans outstanding to property developers is FFr23.8bn, including FFr18.7bn relating to lending in France. Provisions against loans stood at 29 per cent at the end of last year, up from 22.4 per cent in 1993. Property provisions as a proportion of all doubtful loans were up from 49 per cent to 51 per cent.

The group said it had seen increased profitability from asset sales from its investment arm, and improved results from the companies in which it holds stakes. It also reported a FFr1bn capital gain from the sale last year of the central Paris building of Crédit du Nord, its retail banking subsidiary.

Turnover fell by 2 per cent to FFr31.9bn, while expenses and depreciation rose 1 per cent to FFr19.9bn. Net income from operations fell 8 per cent to FFr12.1bn; while total net income including minority interests rose 15 per cent to FFr3.2bn. The tax charge was up 16 per cent at FFr1.8bn.

The company said it had decided to announce preliminary figures following pressure from analysts for swift financial information. The definitive figures will be published at the end of March.

Lex, Page 14

Growth continues at Luxottica

By Andrew Hill in Milan

Luxottica, the Italian maker of spectacles, yesterday confirmed the strong growth of the past five years when it posted a 36 per cent rise in net profits to L124.9bn ($77.9m) for 1994, against L92bn the previous year.

Mr Leonardo Del Vecchio, the group's founder chairman, said he was particularly pleased with the increased market penetration of Luxottica-made sunglasses, and improvements in production efficiency.

Overall turnover rose to L813bn in 1994, from L659bn, including L14bn of sales in the second half generated by Brico, producer of specialist sports eyewear and accessories. Luxottica bought a controlling stake in Brico in July last year.

Luxottica, whose shares are listed on the New York Stock Exchange, is pursuing a parallel strategy of developing its designer lines and sunglasses, while expanding in existing and new markets worldwide.

In 1994, the proportion of sales of designer frames – which include the Giorgio Armani, Brooks Brothers and Yves St Laurent marques – exceeded 50 per cent for the first time. That helped to push up net margins to 15.4 per cent, against 14 per cent in 1993.

Luxottica produced 12.8m pairs of glasses at its four factories in north-east Italy last year, compared with 11m in 1993. Operating expenses grew by 21 per cent to L334bn, of which general and administrative expenses were L115bn.

Mr Del Vecchio said that growth in the sunglasses sector would be a priority in 1995. Sales of Luxottica-made sunglasses increased by 61 per cent last year, and now account for more than 20 per cent of production.

Some 82 per cent of turnover was generated outside Italy in 1994, 39.5 per cent of sales in the US. The strongest improvement in turnover, however, was achieved in markets other than the US and Italy, where sales grew by 36.9 per cent.

Benetton names Palmeri replacement

By Andrew Hill

Benetton, the Italian clothing group, yesterday named Mr Carlo Gilardi as managing director to replace Mr Aldo Palmeri, who stepped down last month.

Mr Gilardi, 52, was director-general responsible for administration, finance and audit at Benetton between 1986 and 1988. Since then, he has been working at Banca di Roma, one of Italy's biggest banks, as central director for financial investments.

Before his first stint at Benetton, Mr Gilardi spent about 20 years at the Bank of Italy, working on money markets and the management of Italy's foreign debt. He is currently chairman of Aiote, the Italian association of capital market operators.

Mr Palmeri had worked with Benetton for 10 of the past 12 years, developing the group's international base, including new ventures in developing markets. He has cited changes in the demands made by the Benetton family as one of the reasons for his departure, although he denied any rift with the three brothers and one sister who run the company.

Nomura cuts London equities staff by 16

By John Gapper, Banking Editor

Nomura International, the European arm of the Japanese broker Nomura Securities, has cut its equities staff in London by 16, including seven analysts, in a shift away from client-linked business and towards proprietary trading.

Nomura has shed about 50 staff from a total of 700 in Europe in the past six months, and lost two of senior London executives. The process of reshaping to cut costs and give up some activities is not yet thought to be complete.

The 16 equities staff who were told they no longer had jobs include six of its 10 UK equities salesmen, and seven industrial sector analysts. Nomura will no longer cover food retailing, stores, engineering and motors in Europe.

The move follows the resignation last month of Mr Basil Postan, the former joint head of equities, who Nomura said yesterday had resigned over difference in future strategy in what was "a regrettable but amicable parting".

Nomura has expanded in proprietary activities, portfolio trading and stock lending within equities, and has appointed Mr Robert Mapstone, a managing director responsible for risk management and trading, to take Mr Postan's place.

The firm has also lost Mr Ian Abrams, one of its coheads of fixed income. It has trimmed its bond sales operations, but expanded in proprietary trading, and currency and interest rate swaps, within a new division known as asset trading.

The move is part of an effort to cut costs in Europe, and switch towards the US investment bank model of using its own capital for trading. The overall strategy was set last year by Mr Koichi Kane, chairman of Nomura in Europe.

Nomura International said it was "subject to the same market conditions as other houses". It said it was taking "all necessary steps, like our competitors, to make sure our business remains strong".

Ford back in the black in Europe

By John Griffiths

Ford's European operations, excluding Jaguar, made a net profit of $388m last year, ending a three-year run of losses totalling over $1.5bn.

With most European economies well into recovery, Mr Alex Trotman, chairman and chief executive, said yesterday that he "expected continued improvement" in Ford's performance in Europe.

Last year's profit compares with net losses of $407m in 1993, $647m in 1992 (including a one-off $334m restructuring charge) and $478m in 1991. The total loss was over $3bn if Jaguar's results were included.

Ford's improved performance was attributed to continuing cost reductions and to improving market conditions.

Europe's new car market rose by 6 per cent last year, to 11.8m units. However, Ford also took a larger share.

Its combined car and commercial vehicle market share rose to 12.1 per cent, compared with 11.8 per cent in 1993.

This lifted total unit sales to 1.39m cars, up from 12.8m in 1993, and 215,500 commercial vehicles, up from 210,482.

Ford's optimism about its European prospects this year are based on continuing economic recovery in Europe and on significant model line-up changes, notably a heavily-revised Escort range and a new version of the Scorpio executive car. In addition, it is expected to widen its European product range by importing more North American-built vehicles.

In spite of the continuing cost reductions, Ford said yesterday that its European workforce last year stabilised at around the 82,000 level.

This represents a drop from more than 98,000 at the end of 1992. However, Ford, whose European operations are now responsible for small and medium-sized "world" cars under the company's Ford 2000 globalisation programme, maintains that planned growth in the European operations should make further job cuts unnecessary.

Vehicle sales from its plants in Germany rose to 216,000 from 193,000 in 1993 and from the UK to 115,000 from 98,000. Sales from its Spanish operations jumped to 77,000 from 48,000.

Jaguar Cars sales surge

Jaguar Cars moved into profit in the final quarter of last year for the first time since being bought by Ford in 1989, writes John Griffiths.

Its $40m final-quarter earnings could not prevent a $115m operating loss for the year as a whole. But this was well down from the $371m loss recorded in 1993 and Ford is now much more optimistic about its current prospects.

Much of this optimism is based on the sharp surge in Jaguar's sales as its long-awaited new range of XJ saloons went on sale in the final quarter of last year. Jaguar said last night that in December, the first month in which the cars became available in all markets, sales worldwide jumped by 35 per cent compared with the same month a year earlier.

While sales for the year were only 10 per cent up on 1993, at 30,020, much of this was accounted for in the final quarter as the new cars began reaching North America and other key markets.

Jaguar said it expected sales to reach 38,000 this year - a level certain to restore it to profitability.

Lot clears a path for privatisation

Poland's airline has been raising its standards, writes Michael Skapinker

A group of aircraft stands, symbolically, in the winter gloom away from the runway at Warsaw airport. They were manufactured in the old Soviet Union and Lot Polish Airlines now has no use for them.

"We want to sell them, but it's not easy to find a buyer," says Mr Krzysztof Ziebinski, Lot's marketing director. The airline has sold seven of its Soviet-made Ilyushin aircraft to the Ukraine, but still owns 19 unwanted Tupolevs.

The Polish carrier has bought a new fleet, made by Boeing of the US and ATR, the Franco-Italian joint venture. The fleet, which Lot says is one of the youngest in the world, is part of a drive by the Polish carrier to raise its standards to western levels and to become central and eastern Europe's premier airline.

A state-owned company since its foundation in 1929, Lot is preparing for privatisation. The sale of a 49 per cent stake in the company was due to take place last year but was held up, with the sale of other state assets, because of doubts among elements of the country's coalition government.

The sale is expected to take place over the next few years. Lot's management, however, says it has no control over the privatisation timetable.

Lot was one of the world's few airlines to make money in 1993, reporting a pre-tax profit of 104bn old zlotys ($4.7m) on revenues of 6,154bn zlotys and it expects to report a small profit for 1994. Passenger numbers rose by 14 per cent last year, compared with 1993, although revenue growth was smaller.

The western-made aircraft were the first step in Lot's attempt to shake off its image as a dingy communist-era airline. Mr Ziebinski says Soviet aircraft burned too much fuel and were uncomfortable.

Last year the airline brought in a Dutch-based company which had worked with KLM, the Dutch carrier, to train employees in customer service.

The resulting improvement has impressed Polish travellers, but has yet to make a similar impact on potential customers elsewhere. Market research among Poles showed that Lufthansa was the most highly-regarded airline, followed by British Airways. Lot was, however, perceived as offering similar quality to carriers such as Air France, KLM, Swissair and Sabena.

Market research in western Europe yielded more equivocal results. While Lot emerged as better than other airlines of the old eastern bloc, its rating was still lower than that of western European carriers.

Mr Ziebinski says part of the problem is that Lot has little money to advertise how much it has improved. He concedes, however, that the airline's service, while vastly superior to what it offered in the days of communist government, is still not good enough.

By the summer, Lot expects to have improved its business class facilities, with better seats and more leg room.

News that the US authorities have approved its proposed code-sharing deal with American Airlines would also be a boon. Code-sharing allows two airlines to use a single flight number to market a route, allowing passengers to change aircraft where necessary.

Lot had hoped the American deal would receive the go-ahead by the beginning of this year, but it still has no idea when it might receive approval.

The airline now flies to Chicago and New York, but being able to use American's domestic network would allow it to market itself more extensively to the 10m-strong Polish community in the US.

It has code-sharing agreements with Lufthansa, Swissair and Austrian Airlines, and as Lot flies to Moscow, St Petersburg, Minsk, Vilnius and Riga, it would like to establish Warsaw as the hub for flights to eastern and central Europe.

The opening of a bright new airport terminal in 1992 has helped. Mr Ziebinski is modest about the new building. He says: "It's not the seventh wonder of the world. It's just a normal, medium-sized regular kind of European airport, but it's a major change from what we had before."

Expansion costs hit final quarter at AirTouch

By Tony Jackson in New York

AirTouch, the California-based mobile telephone operator, has reported record customer growth in its first full year as a public company, with net earnings up 184 per cent for the year at $98m. Profits, however, fell sharply in the final quarter due to the costs of expansion.

The company said it would seek external debt financing some time this year.

AirTouch, which was spun off from the Californian local phone company Pacific Telesis last year, said US mobile phone subscribers – including the company's share in joint ventures – rose 49 per cent during the year, to 1.56m. International subscribers were up 143 per cent on the same basis, to 388,000, partly as a result of acquisition. US paging customers rose 31 per cent to 1.53m.

In the final quarter, the company's earnings dropped 79 per cent to $3m, or $0.01 per share, on sales up 32 per cent at $309m.

During the year it bought a 25 per cent stake in the Belgian operator Belgacom Mobile, and increased its stake in the German operator Mannesmann Mobilfunk from 29 per cent to 33 per cent.

AirTouch also started up three ventures in Japan, and added customers to existing operations in Norway and Portugal.

In the current year, the company will begin operations in Italy, South Korea and Spain. It is also bidding for personal communications services (PCS) licences from the US government as part of a US consortium.

AirTouch said that in 1995 it expected strong growth in its domestic cellular business and positive income from its existing international systems.

However, it said: "The operating losses associated with the construction and build-out of the company's cellular systems in Italy, South Korea and Spain are expected to be substantial.

"If the company is successful [in] pursuing PCS or new international licences, its earnings would be further adversely affected over the next several years."

AirTouch, which has very little debt because of the$ 1.5bn raised in its initial flotation, said it expected to seek external debt financing.

Capital expenditure on its domestic cellular operations alone will be more than $400m this year, and it is also due to pay up to $720m for a stake in Cellular Communications, a New York-based phone company, in October.

Upbeat Degussa ahead 55% pre-tax

By Andrew Fisher in Frankfurt

Degussa, the German chemicals, precious metals and pharmaceuticals group, raised pre-tax profits by 55 per cent to DM94m ($62.6m) in the first quarter, after a strong performance in the financial year to September 30 1994.

Turnover during the period was 11 per cent higher at DM3.7bn. The company said it expected a continuation of the favourable profits trend in the coming months after a positive start to 1994-95.

"We are still climbing sharply," said Mr Gert Becker, chairman. The chemicals business, accounting for the larger part of profits, was performing well and metals were also showing improvement after earlier losses. Pharmaceuticals were flat, but at a high level of turnover and profit.

In the full financial year, Degussa lifted pre-tax profits by 21 per cent to DM280m, in spite of a 7 per cent drop in turnover to DM13.8bn, blamed mainly on the sale of the Leybold vacuum technology subsidiary to Oerlikon-Bührle of Switzerland. Net income was 44 per cent higher at DM174m. The dividend is being raised to DM10 from DM7, but the absence of a tax credit (DM3 in 1992-93) means most domestic shareholders will receive the same as in the previous year.

Degussa said the chemicals operation, UB Chemie, benefited from improved capacity utilisation and further cost-savings. In the first quarter, its turnover rose 9 per cent, with profits advancing markedly. UB Metall recorded 20 per cent turnover growth and a first-quarter profit. UB Pharma, including the Asta Medica pharmaceuticals subsidiary, recorded a 9 per cent fall in turnover.

The company reduced indebtedness by DM400m in the past financial year, with cashflow 29 per cent higher at DM885m. However, finance director Mr Robert Ehrt said Degussa was still some way from a fully satisfactory result. "We have not yet reached where we want to go," he said.

Barrick Gold steps up investment

By Bernard Simon in Toronto

Barrick Gold, the largest gold producer outside South Africa, expects to generate more than $500m in cash this year to help support an ambitious expansion programme in North and South America.

The Toronto-based company, formerly known as American Barrick and which now claims to be the world's most profitable gold producer, yesterday reported 1994 net earnings of $250.5m, or 80 cents a share, up from $213.4m, or 74 cents, a year earlier.

Fourth-quarter earnings climbed to $66.4m from $51.8m. Per-share income was unchanged at 18 cents, due to the issue of shares to help finance last year's acquisition of Lac Minerals.

Output from Barrick's 10 mines rose to 2.33m ounces in 1994 from 1.63m ounces. The increase reflects the Lac acquisition and higher production at the flagship Goldstrike property in Nevada. Output is expected to rise to 3.1m oz this year and 3.7m oz in 1997 as four new mines in Chile, the US and possibly Peru are brought on stream.

Due to an active hedging programme, the average gold price received was $402 an oz, compared with a market price of $384. Barrick estimates that hedging has added $270m to earnings over the past seven years.

In spite of the $1.6bn Lac purchase, Barrick's balance sheet has strengthened appreciably. The debt-to-equity ratio fell from 0.19 to 0.16 last year, and the company had $458m in cash on hand at the end of 1994.

Mr Bob Smith, president, said Barrick had only scratched the surface of the El Indio gold belt in Chile. "I can say unequivocally that we got a hell of a deal," he said yesterday. Expansion at El Indio will consume almost 40 per cent of Barrick's planned $380m capital budget in 1995.

Mr Smith said a surprise in recent exploration work at El Indio has been the discovery of pockets of exceptionally high-grade ore. One pocket, unearthed last month, yielded ore with a grade of 1.8-2 oz per ton from a vein which was thought to have an average grade of 0.12-0.14 oz per ton.

Mr Smith, 63, indicated he may retire later this year. An industry veteran, he is widely acknowledged as the technical brain behind Mr Peter Munk, Barrick's controlling shareholder.

Rhone Poulenc Rorer seeks growth through acquisitions

By Richard Waters in New York and John Ridding in Paris

Rhone Poulenc Rorer, the US subsidiary of France's Rhône-Poulenc, aims to grow through acquisition to become one of the world's five biggest pharmaceuticals company before the end of the decade, according to its incoming chief executive.

Mr Michel de Rosen, a Frenchman who in April will succeed the company's long-time American chief, Mr Robert Cawthorn, said the company wanted to develop its presence in the US and Japan.

However, he said Rorer, which is two-thirds owned by the French chemicals group, would not rush to participate in the current wave of big takeovers in the drugs industry. "Our priority at the moment is to be more productive, and to do some selective acquisitions," he said. His comments came ahead of yesterday's announcement that Rorer had seen net profits last year fall to $332m, from $409m in 1993.

The decline reflected the impact of restructuring provisions of $121m in the second quarter. The company said the second half had shown a marked improvement, and forecast further progress in sales and profits this year.

Both Mr Cawthorn and Mr de Rosen insisted the change of chief executive would not alter the relationship between the French and US companies. Nor did the new appointment presage a plan by Rhône-Poulenc to buy out the shares in Rorer it does not already own.

Mr Cawthorn, 59, said the change was part of a planned succession to prepare the company for a new phase of growth.

Rorer's sales last year rose by 4 per cent to $4.18bn. Much of the increase came in the final quarter, when turnover climbed 14 per cent to $1.29bn. Net income in the fourth quarter also improved, rising to $163m from $124m.

In spite of the setback suffered by Taxotere, the group's anti-cancer drug which had approval blocked by the US Food and Drug Administration, Mr Cawthorn said that product launches were proceeding well. Concerning Taxotere, he said further information had been supplied to the FDA to speed the recommendations of its advisory committee.

Mr de Rosen said that, as it grew, the company intended to remain in the five broad therapeutic areas where it currently operates: anti-infectives, anti-cancer drugs, and treatments for asthma, central nervous system disorders and thrombosis.

Amexco launches franchise in Portugal

By Scheherazade Daneshkhu, Leisure Industries Correspondent

American Express has launched its first franchise operation in Europe in a move to expand its credit card business in smaller European markets.

Mr Jurgen Aumuller, president of American Express Travel Related Services, Europe, said an agreement signed on Tuesday with Banco Comercial Portugues (BCP) marked the first step in a strategy to develop the business in those European countries where demand was *not sufficient* to justify the costs of a full-scale operation.

American Express has 35m cardholders worldwide, 4.5m of whom are in Europe. It already produces a US dollar-denominated American Express card for Portuguese customers. However, under the new arrangement BCP will be able to offer customers the choice of an escudo bill. BCP will be responsible for issuing American Express cards in Portugal, and will handle authorisation, billing and payment systems and credit and fraud control.

American Express said it was considering similar franchise arrangements in Greece, Ireland, Austria, Scandinavia and the Benelux countries.

Prices lead recovery at Falconbridge

By Bernard Simon

Climbing metal prices and higher output helped Falconbridge, the Toronto-based nickel, zinc and copper producer, rebound to a C$131.3m (US$92.8m) profit last year, equal to 94 cents a share, from losses of C$44.5m, or 44 cents, in 1993.

The latest figures include charges of C$43m, or 31 cents a share, for deferred currency losses stemming from long-term debt repayments, and C$26m, or 19 cents, in restructuring costs.

Almost two-thirds of last year's profits were amassed in the fourth quarter, when earnings were C$81.4m, or 46 cents, net of the currency charges and restructuring costs. Revenues soared to C$1.96bn from C$1.43bn.

Falconbridge's 1994 nickel output was 98,800 tonnes compared with 80,700 tonnes in 1993. Zinc rose to 144,000 tonnes from 137,100 tonnes. The average nickel price climbed from US$2.48 to $2.91 per lb.

Inco black in black on solid fourth term

By Bernard Simon

Rising metal prices have helped Inco, the western world's biggest nickel producer, stage a robust turnround.

The recovery was especially strong in the fourth quarter, with earnings of $86.7m, or 73 cents a share, compared with a loss of $38.2m, or 36 cents, a year earlier.

For 1994 as a whole, earnings were $21.7m, or 27 cents a share, down from $28.2m, or 22 cents. Sales rose to $2.48bn from $2.13bn.

The 1994 full-year and fourth-quarter figures include a one-time gain of $45m, or 38 cents a share, stemming from a Canadian court decision on taxation of resource companies.

Last year's performance was dampened by first-quarter charges, totalling $56m after tax, related to production shutdowns and job cuts. The 1993 results were boosted by an after-tax gain of $187m from the sale of a controlling interest in TVX Gold.

Operating income from the primary metals business soared to $119m in the fourth quarter from a $35m loss a year earlier.

Realised nickel prices averaged $3.29 per lb in the fourth quarter of 1994 and $3 per lb for the year, up from $2.42 and $2.72 respectively in 1993. Higher copper prices, however, were offset by a decline in production.

Nickel deliveries rose 11 per cent in 1994 to 518m lbs. However, production problems forced Inco to buy 154m lbs from other suppliers (99m lbs in 1993), on which it makes little or no profit.

Finished nickel inventories totalled 46m lbs at the end of 1994, compared with 72m lbs a year earlier.

The nickel market has tightened further this year, with the three-month LME price currently more than $4.50 per lb.

The market has benefited from strong demand among stainless steel producers, as well as a disruption in supplies from Norilsk, the big Russian nickel producer.

Samsung counters Nintendo action

By Louise Kehoe in San Francisco

Samsung, the South Korean semiconductor manufacturer, has filed a counter-suit in the US against Nintendo of America, the US arm of the Japanese video game company. It seeks damages for defamation, and charges Nintendo with interference in its customer relationships.

Last month, Nintendo charged that Samsung had supplied memory chips containing software for the popular *Donkey Kong Country* video game to counterfeit game manufacturers in China.

"Nintendo's accusations are false – pure and simple," said Mr Keith McDonald, senior vice-president of Samsung Semiconductor, a subsidiary of Samsung Electronics America.

Samsung is the leading supplier of read-only memory (Rom) chips used to store software in most video games.

In its counter-claim, Samsung says Nintendo refuses to provide the chip company with the means of screening chips to ensure that they do not contain pirated software.

Brazilian bank advances despite income downturn

By Angus Foster in São Paulo

Banco Itaú, Brazil's second-largest private sector bank, has reported a slight increase in profits in spite of a fall in income.

The bank announced net profits after tax and minorities of R$320m (US$379m) in the year to December 31, an increase of 2.9 per cent from the restated figure of R$311m in 1993. However, the introduction in July of the Real currency, which led to a sharp fall in inflation, means the periods are difficult to compare.

Mr Roberto Setubal, president, said the bank had "adapted well" to the new low-inflation environment. With high inflation, banks earned most of their income from keeping customers' money on deposit; with inflation now below 2 per cent a month, banks are instead turning to fee income and expanded credit operations.

Mr Setubal said Itau's fee business revenues increased 25 per cent, almost entirely during the second half of the year following the currency's introduction. He said the bank had renegotiated with clients the pricing of banking services, which had been subsidised by the inflationary gains.

"By the end of the year, we were in a very comfortable position," he said.

Credit operations grew even faster helped by Brazil's economic growth. By December, Mr Setubal said the bank was close to recovering the same levels of profitability it enjoyed with high inflation. For the year as a whole, the return on shareholders' funds fell from 13.4 per cent in 1993 to 12.5 per cent.

Itau has started an aggressive expansion drive into Argentina, where it expects to open 35 branches in the next few years. Mr Setubal said four or five branches would be opened this year, and that the bank's plans had not been affected by the crisis in Mexico.

In Europe, where Itau is looking for trade financing business, it has set up a bank in Lisbon and is soon to open a branch in Luxembourg.

Earnings hit $254m peak at Reebok

By Tony Jackson

Reebok, the US sports shoe manufacturer, beat its 1991 profits peak last year with net earnings of $254m, an underlying increase of 10 per cent on 1993. Earnings per share, which have risen each year as a result of share buy-backs, were up 16 per cent at $3.02.

Final quarter earnings rose 5 per cent to $53m, or 64 cents a share, on sales up 18 per cent at $709m. In the US, sales of Reebok footwear were up 14 per cent in the quarter at $295m, while sportswear sales rose 24 per cent to $38m. Overseas sales for footwear and sportswear combined rose 24 per cent to $269m.

For the year, sales outside the US grew 16 per cent. Mr Paul Fireman, chairman, said "while we have had years with more growth, I doubt that we have had years more difficult than 1994 in our established markets.

"We look forward to 1995 with better economic prospects in Europe and new markets opening up and developing around the world."

In the fourth quarter, Reebok bought back 637,000 shares for $24m, bringing the total since April 1991 to $773m.

Rapid growth continues at General Instrument

By Tony Jackson in New York

General Instrument, the Chicago-based company which is a world leader in equipment for the cable TV industry, continued its rapid growth in the fourth quarter with a 44 per cent rise in net income before special items to $57m.

For the full year, net income before special items rose 139 per cent to $217m, or $1.75 a share, on sales up 46 per cent at $2.04bn.

The company reported particularly strong growth in cable TV electronics outside the US, with sales up 106 per cent in the fourth quarter and 76 per cent over the year. In the final quarter, international sales represented 40 per cent of cable TV sales worldwide.

The order backlog at the year end was up 37 per cent over the year at $700m.

President and chief operating officer Mr Richard Friedland said the strong order book meant "we are entering 1995 with significant momentum for continued growth".

The company, which makes cable TV subscriber systems and encryption systems for satellite broadcasters, is 30 per cent owned by the New York investment house Forstmann Little, which bought it out in 1990 and re-floated it in 1992.

Its chairman, 45-year old Mr Daniel Akerson, was brought in by Forstmann Little 18 months ago from the long-distance phone company MCI, where he was president.

General Instrument's shares rose $¾ to $28 in early trading.

Quebecor Printing ahead 27%

Quebecor Printing, North America's second biggest commercial printer which is expanding in Europe, improved margins in the final quarter of 1994 and reported net profit of US$27.1m, or 27 cents a share, up 27 per cent from $21.3m, or 21 cents, a year earlier, writes Robert Gibbens in Montreal.

Revenues rose 29 per cent to $634m, due partly to acquisitions. For the full year, net profit was $87.2m, or 87 cents, up 16 per cent from $75.2m, or 78 cents, on revenues of $2.1bn, up 21.5 per cent. Last month, Quebecor bought Hunterprint in the UK and four Canadian printing plants.

EMC turns in 66% rise in income for quarter

By Louise Kehoe in San Francisco

EMC, the leading supplier of "disk array" data storage systems used with mainframe and mid-range computers, reported record fourth-quarter and annual results as the company continued to take market share from IBM.

Fourth-quarter revenues were $430.7m, an increase of 73 per cent from $248.6m in the same period a year ago.

Net income jumped to $77.9m, or 34 cents a share, up 66 per cent from $46.8m, or 21 cents.

EMC holds about a 30 per cent share of the market for data storage systems used with mainframe computers, up from about 16 per cent in 1993, said Mr Michael Ruettgers, president and chief executive.

EMC has pioneered the use of "redundant array of inexpensive disks" (Raid) technology, in which a large number of standard disk drives, much like those used in personal computers, are linked to create a large capacity data storage system.

Raid systems are rapidly displacing traditional data storage systems from suppliers such as IBM and Hitachi, Mr Ruettgers said.

However, EMC faces mounting competition from other manufacturers, including IBM, which have recently launched Raid products.

EMC expects, nonetheless, to overtake IBM as the leading supplier of data storage systems for mainframes this year. IBM has an approximate 35 per cent share of the market, down from about 80 per cent four years ago, Mr Ruettgers said.

EMC is also expanding its product line to include data storage systems for use with "open systems" computers.

For the full year, EMC reported revenues of $1.37bn, an increase of 76 per cent from $782.6m in 1993. Net income for the year rose by 97 per cent to $250.6m from $127.1m in 1993.

Earnings per share for the year were $1.10, up from 60 cents in 1993.

Shake-out on the line in Canada

Unitel has been hard hit in the telecoms war, says Bernard Simon

In the three years since Canada's long-distance telephone business was opened to competition, more than 340 companies have rushed to answer the call.

The newcomers have used marketing and cut-throat pricing to prise about a fifth of the C$7.5bn-a-year (US$5.3bn) market away from Stentor, the consortium of local telephone companies which had held a monopoly on long-distance calls.

But the newcomers – mostly "re-sellers" which lease lines in bulk from long-distance carriers – have found more static on the line than they expected. What is likely to be a long and painful shake-out has emerged in recent weeks.

The trauma has been most visible at Unitel Communications, whose roots go back more than a century to the telegraph service operated by Canada's railway companies.

Unitel pioneered the assault on Stentor, but racked up losses of C$309m in 1992 and 1993, and another C$185m in the first nine months last year.

Unitel's future hinges on whether Rogers Communications, Canada's biggest cable-TV operator, exercises an option on the 48 per cent stake held in Unitel by Canadian Pacific, the rail and resources conglomerate. If it goes ahead, Rogers will emerge with a 67 per cent interest; the rest would be held by AT&T, the US long-distance company.

Many resellers share Unitel's plight. Two companies have collapsed in the past month and Doscom Enterprises, a Toronto-based consultancy, predicts that more than a dozen will go to the wall this year.

Doscom says "the market is shaking out to three to five carriers, [and] a small group of resellers and value-added providers".

Stentor's members, once derided as corporate behemoths, are proving to be much tougher, more agile competitors than AT&T and British Telecom were in the early stages of deregulation in the US and UK.

"I've been surprised at how quickly the Stentor companies have been able to change their business practices," says Mr Juri Koor, chief executive of Sprint Canada, which is 25 per cent owned by US-based Sprint and has emerged as one of the more successful upstarts.

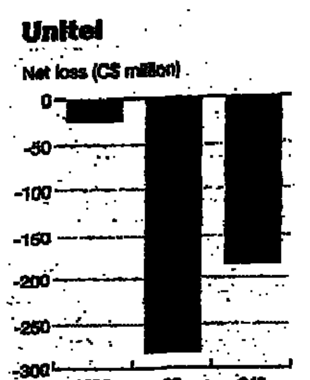
Bell Canada, the biggest telephone company, has virtually cleaned out its executive suite. Mr John McLennan, its chief executive officer, previously worked at Mitel, the Canadian telephone equipment maker. His lieutenants include a former IBM executive and the previous head of New Brunswick's telephone company, which has a reputation as one of North America's most innovative carriers.

Stentor members' continuing grip on local telephone services have enabled them to keep close track of subscribers, including those who defect to the competition.

Mr Jonathan Robinson, analyst at ScotiaMcLeod in Toronto, says the telephone companies "are geared not towards eradicating the competition, but stemming the flow away of the 'right' kind of customers".

Bell Canada expects to spend C$120m on advertising this year. It has cut long-distance rates by up to 60 per cent for high-volume business customers in the past seven years.

But most of the newcomers have been hobbled by weak balance sheets, inadequate management and regulatory rulings that have put them at a disadvantage to local phone companies.



Unitel has struggled to shake off the bureaucratic legacy of its railway roots, despite a name change, and a succession of management changes, including an infusion of AT&T executives.

Some of the newcomers have, however, laid the foundation for more solid growth. Sprint Canada has recovered from a brush with bankruptcy, and is building its own national fibre-optic network. It has raised almost C$400m in new capital over the past three years.

A television campaign starring Candice Bergen has helped it gain a foothold in the residential market.

Another newcomer, Fonorola, has acquired several struggling resellers and aims to become a full-fledged carrier by building a fibre-optic network along Canadian National Railways' track.

A new force – in the shape of the cable-TV industry – is waiting in the wings. About 98 per cent of Canadian homes have both a telephone and television set, and four in every five have access to cable-TV, one of the highest penetrations in the world.

The cable companies have started off in the telephone business by concentrating on specialised markets, such as studio feeds and point-to-point circuits. Much of their preparatory work is being done out of the public eye.

Should Rogers decide to stick with Unitel, convergence between its telecommunications and cable interests seems inevitable. Rogers last year acquired a licence for the Tiger software being developed by Microsoft of the US and it hopes this deal will help expand the capabilities of its cable systems.

Mr John Kuhn, Doscom's president, estimates the cable operators' annual telephone revenues will jump from about C$100m to C$1bn at the end of the decade. From a technological point of view, "the timing is absolutely perfect for them," he says.

Cable-TV operators will have their hands full, however, trying to keep the telephone companies off their doorsteps. BCE, Bell Canada's parent, already has sizeable cable interests in the UK and US, and is itching to get into the domestic market.

Consumer bodies' biggest fear is that despite the liberalised regulatory environment, the old telephone companies will retain an overwhelming slice of the market.

Mr Joseph Schmidt, president of the Canadian Business Telecommunications Alliance, agrees that their service has improved markedly since deregulation began. But he says business users would be happier if Stentor's rivals were more firmly entrenched.

Dr Pepper/7-Up at $12.4m in fourth term

By Maggie Urry in New York

Dr Pepper/7-Up yesterday published unaudited results for 1994 as Cadbury-Schweppes began its $33 a share tender offer for the US soft drinks group.

Net income for the fourth quarter of 1994 was $12.4m, or 18 cents a share, after an extraordinary charge of $1.84m, or 3 cents.

For the year net income was $66.5m, or 96 cents, after one-off debits of $11.2m, or 17 cents.

Dr Pepper did not provide comparative numbers, and said finalised results would be reported on or about February 9.

Last year Dr Pepper reported net income for 1993 was $77.9m after a $16.2m one-time debit and in the fourth quarter of 1993 the group earned $21.3m after a $219,000 extraordinary charge.

Cadbury's offer values the group as a whole at $2.2bn, although Cadbury already has a 23 per cent stake in Dr Pepper.

Cadbury is also assuming Dr Pepper's $830m of debt.

INTERNATIONAL COMPANIES AND FINANCE

Crédit Lyonnais launches auction of MGM cinemas

By Andrew Jack in Paris

Crédit Lyonnais, the loss-making state-controlled French bank, yesterday formally put up for sale the European MGM cinema network as part of its strategy to dispose of assets.

The bank is believed to be seeking about FFr1.7bn ($324m) for the chain which covers the UK, the Netherlands and Denmark. It expects to close the deal by the end of June.

S.G. Warburg, the investment bank advising on the sale, said yesterday: "This is a pure auction. The client has made it clear that [it is] selling to the highest bidder."

A number of prominent companies – primarily in the entertainment and leisure industries – have already been linked to the sale, including Craig, a US property and finance group, Polygram, the London-based entertainment company, and Rank Organisation, one of the UK's largest leisure concerns which already owns the Odeon cinema chain.

However, it is believed that the bank has already received about 100 offers from bidders for MGM in all or part, including about 50 tenders which it is taking seriously. Formal bids must be received by early March.

Jean Peyrelevade: appointed chairman ahead of 1993 losses

Crédit Lyonnais has been forced to introduce widespread cost-cutting as part of a financial restructuring package in discussion with the French state, which is the controlling shareholder.

The bank appointed Mr Jean Peyrelevade as chairman in 1993 ahead of announcing losses for 1993 of FFr6.9bn, and a further FFr4.5bn for the first half of 1994. A second large state rescue package is expected with its full-year losses in March.

Crédit Lyonnais acquired the MGM network in 1992 when Mr Giancarlo Parretti, the Italian financier who first acquired the group, defaulted on repayments on a $1bn loan. The bank sold the European network to one of its own subsidiaries for $210m in 1993.

The chain up for sale includes 102 traditional cinemas and 18 multiplexes in the UK and Ireland, 21 cinemas and the only multiplex in the Netherlands, and a half share in Nordisk Film, which controls nine cinemas in Denmark.

The UK and Irish "cash flow profit" – before interest, tax and depreciation – was £19.2m ($30.4m) in 1993 on a turnover of £106.7m.

The equivalent cash flow earnings were Fl 9.5m ($5.6m) in the Netherlands. In Denmark turnover was DKr132.3m ($22m).

Chinese workers chilled by arrival of Foster's

The Australian brewer plans to cut at least 75% of the jobs at its Tianjin plant, writes Tony Walker in Beijing

When Foster's Brewing took over the near-derelict Bohai Brewery on the outskirts of Tianjin last month the reception from the workers was as icy as the freezing winter temperatures.

"They only bought the plant. They don't want the workers," said a factory worker observing the arrival of the new owners, in the guise of technicians from Foster's Melbourne headquarters.

The Australian brewer, which bought the defunct brewery in China's largest bankruptcy auction, plans to slash the workforce and amalgamate the Bohai plant with the larger Tianjin brewery to create a single brewer in this port city of 9.3m people.

The Tianjin project makes sense in the context of Foster's strategy of building a network of breweries in China's bigger cities, but for the plant's 550 workers, at least three-quarters of whom will lose their jobs, these are bleak times.

But the Chinese authorities hope the Bohai brewery auction will provide a model for the divestiture of assets in thousands of loss-making state-owned enterprises.

The government has initiated a cautious experimental programme of liquidating 100 state enterprises in 18 of China's larger cities for possible sale, merger or closure. Tianjin municipal officials say the Bohai brewery, with accumulated losses of Yn189m ($22.5m), was at the top of the list for divestiture, among five Tianjin companies singled out for bankruptcies.

While the auction attracted a great deal of interest inside and outside China, Foster's ended up as the sole bidder with an offer of Yn54m for the Bohai plant, and a further Yn12.5m to take over the loss-making Tianjin brewery. These funds will go towards providing redundant workers with re-training and compensation, and paying creditors.

Foster's becomes the 92 per cent owner of Tianjin's brewing business in partnership with the Tianjin brewery. The Australian company plans to re-start production at the Bohai brewery in about three to six months, but in the next few years will build a brewery in Tianjin's economic development zone with annual capacity of 400,000 tonnes, more than enough to meet the city's annual demand of about 250,000 tonnes.

Mr Liu Chilun, chief engineer of the Tianjin Economic Commission, says while the municipality had valued the Bohai brewery at Yn89m it was satisfied with the sale. But he admitted it would not be easy to replicate the brewery sale in other loss-making industries, since in many cases their value at auction would fall short of funds required to pay compensation to redundant workers, let alone provide relief for creditors. In this respect the Bohai sale was a rarity.

Among the five loss-making Tianjin enterprises slated for closure are the No 1 Bedsheet plant and the No 3 Leather Shoes plant. The auction or sale by tender of these heavily indebted enterprises would probably not realise sufficient funds to cover payments to workers for three years, under a decree which lays down guidelines for bankruptcies.

"Personally, I think it is unlikely we will have widespread bankruptcies," said Mr Liu. "It is very difficult to push people on to the street before we have developed a complete welfare system."

The State Statistical Bureau reported recently that 45 per cent of the country's 14,400 large and medium-sized enterprises were losing money.

About one-third of enterprises are in effect insolvent, kept afloat by state hand-outs. Judging by bitter reactions at the new Foster's-owned plant in Tianjin, the state has every reason to be alarmed about the potential for labour unrest among workers who have lost their jobs.

NEWS DIGEST

Japanese chemical groups to merge resin operations

Showa Denko and Nippon Petrochemicals, two of Japan's leading petrochemicals makers, yesterday said they would merge their synthetic resin production operations into a new joint venture company, writes Michiyo Nakamoto in Tokyo.

The new company, to be established in July, will be capitalised at Y10bn ($101m) and will have annual production capacity of 1m tonnes.

Sales in the first year are targeted at Y100bn. This will make it about as large as Mitsubishi Chemical, the leader in the petrochemical industry.

Showa Denko, Japan's fourth largest comprehensive chemical maker, will take up 65 per cent of the new company's equity and Nippon Petrochemicals, will have a 35 per cent share.

The move by the two companies reflects the need for consolidation in Japan's petrochemical industry. By allowing the two to trim distribution costs and to integrate production, the merger will enable them to reduce their costs by about Y10bn annually.

Thomson units in multimedia shake-up

Thomson Consumer Electronics, part of the French state-owned Thomson electronics group, is to change its name to Thomson Multimedia and absorb the broadcast systems subsidiary of Thomson-CSF, the defence electronics division, writes John Ridding in Paris.

The company said yesterday the move reflected the development of its businesses in interactive communications and digital transmission and entertainment systems. Last month, for example, TCE was part of the consortium of international electronics and entertainment groups which launched the Digital Video Disc.

Thomson Broadcast Systems, which will become part of Thomson Multimedia, has annual sales of about FFr450m ($86m). It is involved in the treatment, coding and dissemination of images and the production of digital and fibre optic transmission devices. The subsidiary is also involved in the production of cameras and studio equipment. Its principal sites are in Rennes and Brest.

Shareholder blocks ferry groups merger

The proposed merger between Color Line and Larvik Scandi Line, two Norwegian ferry groups, may crumble in the face of pressure from a large shareholder who opposes the deal, writes Karen Fossli in Oslo.

Mr Olav Nils Sunde, a Norwegian investor who built a 33.9 per cent stake in Larvik Scandi Line in recent days, told the company yesterday he intended to block the two-thirds majority needed to approve the deal at an extraordinary general meeting to be held by April 1.

A merger plan was agreed by the chairmen of the two companies last week and is due to be put before their respective boards by February 9. Shareholders will be offered 0.65 new shares in Color Line for each old share in Larvik Scandi Line with B. Skaugen Shipping, Color Line's biggest shareholder, becoming the biggest shareholder in the new company with a 47.5 per cent stake.

Yesterday, 2.4m Larvik Scandi Line shares, representing 9.9 per cent of the share capital, changed hands at NKr17 a share, up NKr0.30 from Tuesday, but closed at NKr16.60. Color Line closed unchanged at NKr25.50.

In 1994, the two companies had a combined turnover of NKr2.6bn ($394m), a workforce of 2,300 and transported 3.6m passengers on six lines and nine ships.

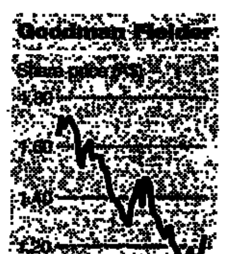
Sales fall 5% at Ares-Serono

Ares-Serono, the Geneva-based biotechnology drugs group, said its 1994 sales fell 5 per cent to $636.8m, mainly because of the removal of some of its products from government approved lists in Italy and Spain, writes Ian Rodger in Zurich.

Sales in Italy plunged 53 per cent to $94m, while those in Spain were down 12 per cent to roughly $60m. Sales excluding Italy and Spain were up more than a fifth, reflecting the group's efforts to develop a more balanced geographical distribution of revenues. Sales of drugs for treating infertility, the group's main product line, were up 28.5 per cent.

The sales figures for both years exclude those of the diagnostic division, sold in June, 1994.

Brierley takes 4.9% of Goodman Fielder



Shares in Goodman Fielder, the large but troubled Australian food manufacturer, closed 3 cents higher at A$1.24 yesterday, after it was revealed that Sir Ron Brierley's Brierley Investments had built up a 4.9 per cent stake in the group, writes Nikki Tait in Sydney. Rumours that Brierley was buying into the company, which has been beset by several years of static profits, a very weak share price, and boardroom upheavals, have circulated for sometime.

Notices sent out by Goodman revealed that some of the shares were bought at the end of last year, although Brierley subsequently revealed further purchases in January.

Domtex doubles second-quarter earnings

Stong denim and commodity yarn markets helped Dominion Textile to double second-quarter earnings, writes Robert Gibbens.

Domtex, with most of its business in the US, Europe and south-east Asia, posted sales of C$396m (US$281m) for the three months ended December 31, up 23 per cent from a year earlier. Net profit was C$8.6m, or 18 cents a share, up from C$3.4m, or 5 cents, after a special charge of C$1.75m.

Denim sales rose 28 per cent, yarns 33 per cent, technical fabrics 6 per cent and apparel fabrics 14.5 per cent. Industrial products were lower but are expected to recover in the third quarter.

First-half net profit was C$15.1m, or 31 cents a share, against C$7.8m, or 13 cents, on sales of C$752m against C$624m.

Portman Mining reopens mine

Portman Mining, the Perth-based group in which China International Trust and Investment Corporation (Citic), the large Chinese investment group, is acquiring a controlling interest, said yesterday it would re-open its Woodie Woodie manganese mine in Western Australia, after successfully renegotiating sales contracts with Japanese customers, writes Nikki Tait.

The project, in the Pilbara region, was put on a "care and maintainence" basis last May. The new contracts are for the supply of 200,000 tonnes of metallurgical grade manganese ore to Japan in 1995-96, the largest annual tonnage to be sold from the mine. Production is due to restart in the first quarter of 1995.

Record R3.4bn in new business at Liberty Life

Liberty Life, South Africa's biggest listed life insurer, has announced that new business written during 1994 reached a record R3.43bn ($972m), 33.1 per cent up on the R2.58bn recorded during 1993, writes Mark Suzman in Johannesburg.

Most of the growth came in individual single premiums which rose 60.7 per cent to R1.63bn, up from R1.01bn previously. Group single premiums rose by a more modest 8.5 per cent to R886.7m, up from R817.1m.

At the same time, total recurring premiums amounted to R919.3m, 22.6 per cent up from R750m during 1993.

However, in this part of the business growth in group premiums, which rose 31.1 per cent to R133.3m slightly outperformed the improvement in individual premiums which rose 21.2 per cent to R786m, up from R648.3m.

Device obviates need for immediate injection of funds into scheme

ICI cash supplements pensions

By Norma Cohen, Investments Correspondent

Imperial Chemical Industries yesterday said it would take the unusual step of paying some of its pensioners directly out of corporate funds, rather than using those of the pension scheme.

The strategy relieves the company from having to make an immediate cash injection to its scheme. Actuaries have described the move as "unusual but not unheard of". The shift will increase ICI's cash outlay on pensions, although because of the way pension costs are accounted for, it will not affect its profit and loss account.

The decision to switch the financing of early retirement benefits to the company follows a far-reaching review of ICI's £4.6bn ($7.2bn) pension scheme. Late last year, ICI decided to scrap its in-house fund management team and select a group of external investment managers. The decision followed the sudden death of its long-time investment manager last summer and a year of significant underperformance in 1993.

Yesterday, ICI said it would split the management of its pension scheme between three external managers, with the largest portion going to Barclays de Zoete Wedd Investment Management. BZWIM will have roughly £2bn in a core portfolio whose performance tracks the FT-SE-A All-Share Index. The remainder will be split between Schroder Investment Management and PDFM, a subsidiary of UBS Asset Management, each of which will manage a portfolio of domestic and international stocks and bonds.

In explaining the move to choose external managers, Mr Rob Margetts, chairman of the board of trustees, said: "It was felt that leading external securities managers, with their larger research base, were better-equipped than an in-house team to deal with the complexity and sophistication of today's global markets."

ICI has also completed a review of its pension scheme financing, to determine whether its mix of investments is appropriate to pay its full pension liabilities. ICI has only 19,681 workers who currently pay contributions and 82,031 current or deferred pensioners.

While it is typical for corporate schemes to hold gilts against their current and deferred pension liabilities, the ICI scheme's assets are nearly 80 per cent invested in equities.

Mr David Searles, group planning and acquisitions manager at ICI, said that following an asset/liability study, the scheme had moved a small proportion of assets into bonds.

Had ICI moved a large portion of assets into bonds, which over time have lower total returns than equities, it might have been necessary to inject additional cash to its pension scheme in order to maintain solvency.

Barclays sells US mortgage business

By Richard Waters in New York

Barclays has reached an agreement to sell a large part of its US mortgage business in a deal that is believed to have been valued at more than $250m (£160m).

The sale effectively marks the last chapter in the UK bank's retreat from the retail and small business banking markets in the US to focus on investment banking.

Barclays said it expects to report a $50m profit on the deal, though this represents only a small part of the losses it had sustained previously on the business, known as Barclays American Mortgage.

Norwest, an Iowa-based banking group, is to buy the company's portfolio of mortgage servicing rights and an administration centre.

It is not buying the bank's mortgage origination business, which Barclays is also expected to dispose of in due course.

BAM's biggest asset, its $15bn portfolio of mortgage servicing rights, had provided Barclays with a steady stream of fee income for administering the loans. But in 1993, as US bond markets soared and long-term interest rates fell, many Americans refinanced their mortgages at lower rates, reducing the size of the portfolio.

As a result, Barclays was forced to write down the value of its book of servicing rights by $399m in 1993.

Barclays put the value of the portfolio at £180m at the end of 1993, and said the book value had fallen by a further £29m by the middle of last year.

The profit on the disposal announced yesterday reflects in part the rise in US interest rates, which has halted the wave of mortgage refinancings and so extended the expected life of the mortgages serviced by the company.

Neither side would disclose the value of the transaction. The final price will depend on the value of the assets at the time the deal is completed, which is expected in the next three months.

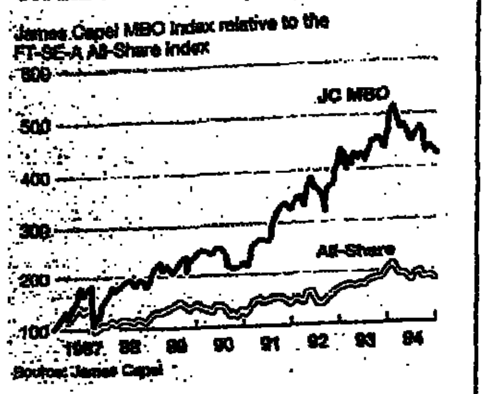
LEX COMMENT

UK new issues

Criticism of the banks behind the recent flood of new issues is perhaps surprising given the overall performance. Flotations over the past two years have out-performed their relative sectors by 9 per cent. And the much maligned management buy-outs, though they include the disastrous Aerostructures Hamble, have outperformed other issues. Nevertheless the divergence in performance has inevitably attracted criticism in some quarters. A collection of float statistics from James Capel provides one clear pointer in picking the winners; namely, to attach no importance to the reputations of the issuing houses. Of the eight initial public offerings to underperform their sectors by more than 50 per cent, three came from SG Warburg, and the others from among the most blue blooded of city establishments.

UK MBO flotations

James Capel MBO Index relative to the FT-SE-A All-Share Index



Source: James Capel

Some fund managers have chosen to punish the brokers behind disastrous initial public offerings and in several cases the judgment of such brokers deserves criticism. Nonetheless there is a fairly clear pattern to failures. Half of the 20 worst performing issues were technology stocks, carrying strident wealth warnings. The upside potential for such investments is evident in Telspec's 131 per cent rise. But overall they have substantially underperformed. Many such companies have no profits track record and little evidence that technology being developed will be translated into earnings. Valuation is therefore extremely subjective, and investors must carry much of the blame if they get it wrong.

Vodafone warns of profits shortfall despite record subscriber growth

By Alan Cane

Shares in Vodafone, the UK market leader in mobile phones, slipped 11 per cent yesterday from 188p to 168p after a warning that profits this year would be below expectations. They recovered to close at 182½p.

The warning came despite record subscriber growth in the past few months. Sir Gerald Whent, group chief executive, said the number of subscribers joining the network was almost twice 1994 levels.

He said: "This exceptional increase in subscribers in the last months of the financial year will significantly improve next year's profits, but it must be recognised that the corresponding connection commission payments will reduce this year's profits below current market expectations."

The news surprised analysts, who had recently marked down their pre-tax profits expectations from £405m to £385m ($600m) for the same reason. Yesterday, the consensus was for a figure of between £365m and £370m, little changed from the previous £363.3m.

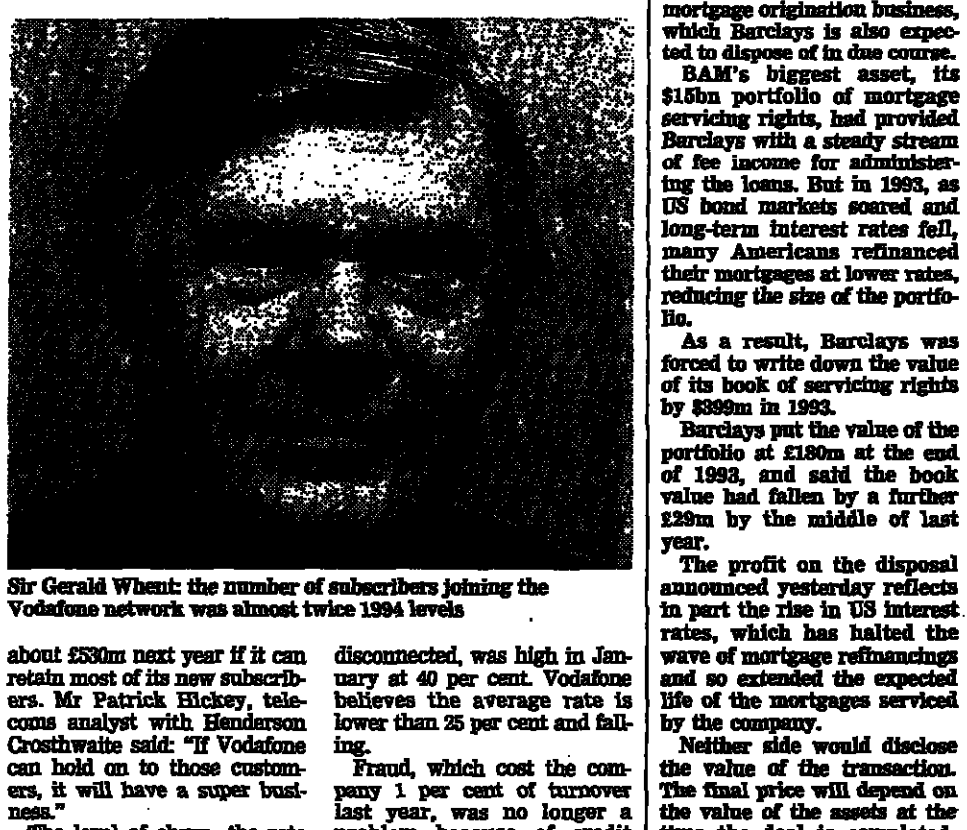
Vodafone is a victim of its own success and the idiosyncratic financial structure of the cellular phone industry. Last month the company connected more than 93,000 new subscribers gross to its network, equivalent to 49,000 new subscribers when disconnections are taken into account. The figures for 1994 were 47,500 and 27,000 respectively.

Vodafone said yesterday it had connected 80,000 more subscribers than it expected in December and 40,000 more than expected in January.

Vodafone and its competitors, however, pay a bonus to retailers or dealers for each subscriber signed up which can exceed the price of the handset.

A bonus of between £250 and £260 is paid per connection; the price to the dealer may be only £180 to £190, which means the phone could be given away free and a profit still made.

A combination of this bonus, which makes the cost of entry to the network inexpensive, and low cost tariffs are behind the dramatic growth in the UK mobile phone market.



Sir Gerald Whent: the number of subscribers joining the Vodafone network was almost twice 1994 levels

Analysts think Vodafone could make pre-tax profits of about £530m next year if it can retain most of its new subscribers. Mr Patrick Hickey, telecoms analyst with Henderson Crosthwaite said: "If Vodafone can hold on to those customers, it will have a super business."

The level of churn, the rate at which customers either leave the network or are disconnected, was high in January at 40 per cent. Vodafone believes the average rate is lower than 25 per cent and falling.

Fraud, which cost the company 1 per cent of turnover last year, was no longer a problem because of credit checking.

See Lex

Wellcome looks to US for buyer

By Daniel Green

Wellcome's efforts to sell itself to a third party, to counter Glaxo's £9bn ($14bn) hostile takeover bid, appears to have moved to the US.

It emerged yesterday that Mr John Robb has been in the US this week to seek a potential new bidder. He has now returned, but no further details were available.

At the same time, the list of European companies that have come close to ruling themselves out as buyers lengthened yesterday when Sandoz, the Swiss drugs company, said it had "no intention" of bidding.

It joins Bayer and Hoechst, the German companies, which have also indicated that they are unlikely to become involved in a battle with Glaxo.

Wellcome's strategy remains to try to convince the pharmaceuticals industry that it is worth substantially more than the figure Glaxo offered on January 23.

It is likely to announce its results for 1994 shortly, bringing them forward from the previously scheduled March 1.

Butte's chief action dismissed in Montana

By Kenneth Gooding, Mining Correspondent

Butte Mining, the London-listed company whose main activity is prosecuting US law suits – it is seeking damages of up to $1bn (£600m) from former managers and promoters – said a judge in Montana had dismissed its chief action, on the basis that he lacked jurisdiction.

Dealings in the shares were suspended at 4p.

The company had been awaiting the decision for two and a half years. Mr David Lloyd-Jacob, chairman, said Butte would take the case to the Federal Appeal Court in California and that the directors "remain confident that the company will ultimately succeed in its lawsuits." While the Montana setback meant the case would take longer to resolve, he added: "I have reason to believe that we have ways of surviving."

Butte has disposed of nearly all of its operations. In November 1993 it raised £1.3m to fund running costs until the case came to trial by issuing loan notes giving investors rights to some of the litigation proceeds.

More recently Butte received 400,000 shares in Gem River – a reward for exploration work at Gem's sapphire property in Montana – after Gem completed a private share placing last October.

Bucknall turnround as overseas losses cut

Bucknall Group, the Birmingham-based construction industry management consultancy, built on a strong performance in last year's second half to report a sharp turnround at the interim stage.

On turnover ahead 17 per cent to £8.61m ($13.4m) on a comparable basis – the Bucknall GmbH operation is now treated as an associate rather than a subsidiary – pre-tax profits for the six months to October 31 amounted to £105,000, against losses of £292,000.

Operating losses in overseas operations were reduced to £83,000 (£115,000) following improved performances in Hong Kong and France.

Mr Richard Miles, chairman, said the group had achieved further penetration of a market "which, while no longer in recession, shows only slow growth". He attributed operating profits of £194,000 (losses of £149,000) to new service development and expansion at Ferguson Bucknall Austin, the facilities management joint venture.

Smith New Court

Smith New Court has exercised its option to buy 30 per cent of International Securities, a broker based in Karachi, Pakistan. The majority is held by United Distributors Group, which has trading activities in Pakistan.

Tomkins listing

Tomkins, the international industrial management company, has applied to list its American Depositary Receipts on the New York Stock Exchange. Trading is expected to begin on February 21.

Sage shares at 675p

Shares in Sage Group rose 7p to 675p as the personal computer accounting software company reported trading ahead of internal forecasts for the first quarter.

Mr David Goldman, chairman, said the company had made "great strides" with its acquisition strategy in recent months. In November it made its second acquisition in France with the purchase of Saari, the French market leader, for £18.7m ($29.2m).

English & Overseas

English & Overseas Properties has arranged a seven-year £13.5m ($21m) facility through DEPFA, the German bank.

The loan is secured against 10 investment properties owned by its wholly-owned subsidiary, English & Overseas Investments. Of the facility, £10m will be used to repay five existing loans, with the balance providing working capital.

Hanson defends £100,000 donation to Tory party

Lord Hanson, chairman of Hanson, yesterday defended the company's £100,000 donation to the Tory party and attacked Labour's policy on Europe, writes David Wighton.

Speaking at the company's annual meeting in London, he said: "For all its posturing as a friend of business, [Labour] is still committed to the European Socialist manifesto, which is as unfriendly to business as you could possibly find."

Although Hanson executives have recently joined other business leaders in a dialogue with Labour, Lord Hanson made it clear where the company's sympathies remain. "It cannot be denied that Hanson's success has been due partly to the policies the Conservatives have introduced since 1979," he said.

"Just look at Labour-controlled councils. Is this the way we want the country to be run?"

He also defended Hanson's record on executive pay. "We are a very cheap lot around here, though it may not seem so looking at my salary. We would never support excessive pay and the remuneration committee would not recommend it."

Asked by one retired shareholder whether the £1,000 reduction in his salary to £1.362m had caused him "any problems", he replied: "I am struggling along."

Lord Hanson made no attempt to play down expectations that the company will make another large acquisition before long. But he would not comment on rumours that it might be interested in buying a utility, such as a regional electricity company.

He also declined to comment on reports that Hanson had pre-qualified to bid for the eight British Rail train operating companies being privatised this year.

However, Mr Derek Bonham, chief executive, stressed that Hanson had not pre-qualified but merely requested information on the franchises. "We like to know what is going on," he said.

At the AGM, representatives of the Navajo and Hopi Indians who live next to Hanson's Peabody coal operations in Black Mesa, Arizona, drew attention to new research on levels of selenium in the local population. Lord Hanson said these complied with US regulatory requirements but added that the Peabody management would look at any new studies.

Centex moves into UK housebuilding

By Andrew Taylor, Construction Correspondent

Centex Homes, a leading US housebuilder, has formed a joint venture with Charles Church, the Surrey-based housebuilder.

The new company, to be capitalised initially at about £10m ($15.6m), will operate in south-east England.

Its first site is in Sunningdale, Berkshire.

Half a dozen five-bedroom homes are planned. They are expected to sell for about £500,000 each.

Centex claims to be the biggest US housebuilder, constructing about 12,500 homes annually.

It has been keen for some time to expand internationally.

Mr Timothy Eller, president and chief executive of Centex Homes, said yesterday: "We had been evaluating the UK for approaching five years."

The joint venture will be managed by Charles Church.

Recs add spark to acquisition speculation

David Wighton considers the options as Hanson feels ready for its next deal

Lord Hanson did nothing yesterday to dampen speculation that Hanson is preparing itself for a sizeable acquisition. At the group's annual meeting he pointed out that Hanson's borrowings had been reduced significantly since its purchase of Quantum Chemical in 1993.

"Our approach is to borrow when needed. To pay off debt as quickly as possible and then to borrow again."

He added: "Our borrowing capability puts us in a position to act... should the opportunity arise."

Over the last few months the company has made no secret of the fact that it feels ready for its next deal, which has prompted the inevitable frenzy of speculation about possible targets. Some of those potential targets mentioned look quite plausible but some can be ruled out, largely for financial reasons.

While Hanson's has reduced its debt since Quantum it still had gearing of 58 per cent when it announced annual results last month. This means it is hardly in a position to do a deal like Quantum, a company with negative net worth and debts of $2.5bn.

Hanson's ideal acquisition would be a company providing relatively stable UK earnings. The Quantum deal has made the overall mix of the group rather more cyclical than it would like in the long term. It has also shifted the balance towards the US which, other things being equal, pushes up Hanson's tax charge.

A UK regional electricity company, one of the most fancied potential Hanson targets, certainly seems to fit these requirements. Its earnings should be stable, at least until the next regulatory review in five years time, and it should be very cash generative.

This is an attraction for any conglomerate, but particularly for Hanson which has not been a strong cash generator in recent years and is also talking about increasing capital investment in its existing businesses.

A rec would also be well within Hanson's means. Not only are they the right size – ranging in market value from slightly less than £1bn to about £2bn – they are also asset rich. This is important because of the impact an acquisition would have on Hanson's balance sheet.

Given that its shares are currently yielding a fat 6.6 per cent Hanson is highly unlikely to fund an acquisition of any size with equity. Yet a large debt-funded deal would increase its gearing quickly, particularly if it involved a large write-off of goodwill.

What makes recs so attractive is that they among the few industrial businesses which could be acquired for near their asset value.

Yorkshire Electricity, for example, has a market value of £1.4bn and at March 31 1994 had net assets of just under £700m. On the conservative assumption that a bidder would have to offer a premium of 20 per cent over the market price that would suggest a goodwill write-off of almost £1bn. Assuming Hanson funded an acquisition entirely by debt its gearing would soar to 150 per cent.

However, the recs believe their assets are undervalued by historic cost accounting and provide much higher figures based on current costs. On this basis Yorkshire's net assets are valued at £1.4bn. If Hanson were to use this as the fair value post acquisition, gearing would be less than 100 per cent.

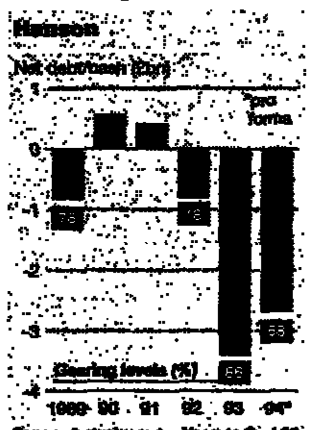
However, if Hanson were to write up the assets – as Trafalgar House plans to do if it wins control of Northern Electric – this would increase the depreciation charge, reducing Yorkshire's reported profits. Even though these would be lightly taxed this might significantly reduce the extent to which the acquisition would enhance Hanson's earnings per share.

If a rec looks a possible target for Hanson which one would it go for? The most popular candidate in the City has been Yorkshire, for a number of reasons. The first is that Swiss Bank, adviser to Trafalgar House in its £1.2bn bid for Northern Electric, has built up an 8 per cent stake in Yorkshire. Whatever purpose the stake was acquired for it is not a long-term investment.

Yorkshire is also regarded as one of the less strong performers in the sector with a management composed largely of industry insiders. Finally,

Hanson

Net debt/cash (£bn)



Source: Annual report Years to Sept 30

there are Lords Hanson's and White's Yorkshire roots. Some analysts dismiss the idea that sentiment might play a part.

"Hanson did not get where he is by succumbing to sentiment," said one. But others point out that the Yorkshire connections might generate local support in the event of a bid.

Hanson has certainly taken a good look at the electricity industry. In 1990 it discussed a bid for PowerGen, the smaller of the two generating companies, ahead of privatisation. Some observers have suggested that electricity generation might interest Hanson more than distribution. But at more than £4bn, PowerGen would be too big for Hanson to digest whole and it is very unlikely to be tempted by the 40 per cent stake being sold by the Government.

Another suggested target, Safeway supermarket chain Argyll, also looks a bit too much for the Hanson balance sheet. Assuming, once again, a 20 per cent premium to current market value Hanson would have to find about £3.6bn, with a goodwill write-off of about £2bn. That would push its gearing to about 250 per cent. Although its interest cover might still be reasonably comfortable the City would take some persuading that this level of gearing was acceptable.

Of the other recent suggestions, Costain looks most unlikely with Hanson already having acquired its Australian coal interests.

United Biscuits is more plausible if only because Hanson has shown itself interested in basic food businesses with its unsuccessful bid for Ranks Hovis McDougall. Hanson was outbid by Tomkins whose shares have suffered ever since because of the City's worries about the pressures on companies exposed to the supermarket price war. Tomkins' experience may well have put Hanson off its food.

Arco pays $34m for oil and gas venture

By Robert Corzine

Clyde Petroleum, the UK independent explorer, and OMV, the Austrian oil company, have sold their British joint venture to Arco, the US oil company, for £22m ($34.2m).

The assets of the venture, St James Oil & Gas, include interests in three southern North Sea gas fields. The sale will allow Clyde and OMV to focus on developing other assets with a higher priority.

St James was formed in 1992, when Clyde placed its interests in a number of UK North Sea discoveries into the company in exchange for OMV agreeing to fund the next stage of appraisal spending. At the time Clyde was facing heavy development spending commitments for the Gryphon field.

Clyde's share of the proceeds amounts to £9.9m. The majority will be invested in other projects, including its recent acquisition of Mobil's interests in the Netherlands, and the balance used to pay off debt.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Bucknall	6 mths to Oct 31	8.61	(7.38†)	0.105	(0.29L†)	0.5	(2.2L)	-	-	-	-	-
[illegible] Brewery §	Yr to Oct 31	8.43	(8.35)	1.38	(1.32)	12.3	(11.2)	3.5	Apr 8	3	4.5	3.6
Standard Platforms §	Yr to Sept 30	1.31	(3.16)	0.143L	(1.07L♦)	1.1L	(10.5L)	-	-	-	-	-

Dividends shown net. Figures in brackets are for corresponding period. §USM stock. †Adjusted for change in treatment of Bucknall GmbH. ♦After £243,064 exceptionals.

MONTHLY AVERAGES OF STOCK INDICES

	January	December	November	October
FT-SE Actuaries Indices				
100 Index	3028.3	3026.6	3084.9	3046.8
Mid 250	3442.4	3447.3	3528.2	3496.3
350 Share	1516.9	1516.7	1548.22	1529.4
Non-Financial	1631.29	1622.39	1654.00	1639.72
Financial Group	2084.15	2134.40	2186.40	2137.44
All-Share	1501.87	1502.42	1532.70	1516.66
Eurotrack 100	1315.78	1333.34	1337.31	1317.95
Eurotrack 200	1373.26	1384.55	1396.82	1374.17
FT-A World Index	170.31	170.85	174.74	177.11
FT Indices				
Government Securities	90.84	91.78	91.62	90.99
Fixed Interest	109.28	109.64	108.20	107.71
Ordinary	2314.3	2327.9	2368.0	2342.5
Gold Mines	1803.82	1888.49	2031.34	2248.63
SEAQ Bargains(5.00pm)	19,820	17,831	24,186	23,105

	Highest Close Jan	Lowest Close Jan
FT-SE 100	3076.7 (16th)	2954.2 (23rd)
FT-SE Mid 250	3496.2 (1st)	3370.4 (31st)
FT-SE 350	1538.7 (16th)	1493.9 (23rd)
FT-A All Share	1522.47 (16th)	1469.23 (23rd)
Ordinary	2365.6 (16th)	2238.3 (23rd)

COMMODITIES AND AGRICULTURE

Bonn warned on timing plans for animal transport

By Caroline Southey in Brussels

The European Commission has warned Germany it would be breaking European Union rules if it were to introduce its own time limits for the transport of live animals.

Mr Frans Fischler, the EU's agriculture commissioner, told the Bonn government that its plans would interfere with the internal market. The German proposals include an eight-hour limit on the transport of livestock.

Britain and Germany have strongly pressed for the introduction of limits on journey times for live animals in response to pressure from animal welfare activists. An agriculture council meeting late last year, however, rejected Bonn's proposals for EU-wide limits.

The German government subsequently asked the Commission to rule on the legality of introducing the plan unilaterally.

A Commission official said Mr Fischler hoped the next meeting of agriculture ministers, to be held on February 20, could reach agreement on the body's own proposals on the transport of live animals, first tabled two years ago.

The Commission's proposals include time limits for resting, feeding and watering animals, limits on the number of stock carried, a route plan and a registration system for hauliers.

The official said there was agreement on 90 per cent of the Commission's proposals. However, a deal has been blocked because the ministers are split on the issue of a time limit.

Agriculture ministers from the UK, Germany, the Netherlands, Denmark and Belgium want the inclusion of an overall time limit. Italy, Spain, Greece and Portugal are understood to be implacably opposed to any such limit.

The Commission says veterinary evidence shows there is no need for an overall limit on journey-time. But Mr Fischler is believed to be willing to make a proposal on an overall limit if it would break the deadlock.

UK move on consumption

By Deborah Hargreaves

Mr William Waldegrave, UK agriculture minister, yesterday said he would make available up to £12.5m a year in marketing grants and assistance to promote the consumption of "humanely-reared" pink British veal.

His comments follow weeks of protests by animal welfare demonstrators which have tried to stop the shipment of calves to the continent for rearing in veal crates.

Mr Waldegrave said the Ministry of Agriculture would hold a seminar on February 24 on the prospects for increasing welfare-friendly veal production in Britain.

He said the UK reared 60,000 calves for veal 20 years ago, but that had dropped to 4,000.

The Meat and Livestock Commission, the farm promotional body, would also hold a conference on April 3 to discuss what to do with surplus dairy calves. These are the animals exported for veal, but which are not suitable for beef production.

The European Commission is due to complete a report on calf-rearing systems in the European Union by the middle of the year.

Sky may be the limit for prices in paper business

Bernard Simon explains why wood pulp has become one of the hottest products in the world

Mr Robert Callahan, a retired North American paper industry executive, has an effective way of reminding younger colleagues that neither the ups nor downs of the wildly gyrating wood pulp market last forever.

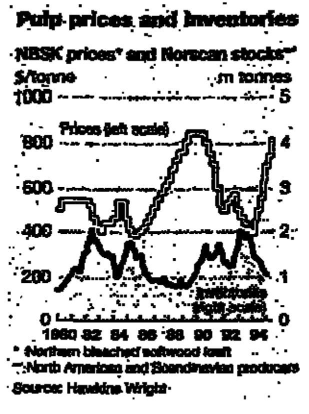
Doing the rounds at this week's annual meeting of the Canadian Pulp and Paper Association in Montreal, Mr Callahan frequently pulled from his pocket one expert's prediction in the mid-1980s that pulp prices would rocket to US$1,485 a tonne by 1990. In fact, the pulp market peaked at $840 in 1989, and then slithered down to $390 four years later.

But pulp has once again become one of the world's hottest commodities, and the bulls are out in force, eager to prove that the sky is the limit.

The price of northern bleached softwood kraft (NBSK), the industry's benchmark product, has regained in less than 18 months almost all the ground that it lost during the recession. NBSK prices are scheduled to jump to $825 on March 1.

Pulp prices and inventories

NBSK prices* and Norscan stocks**



* Northern bleached softwood kraft
** North American and Scandinavian producers
Source: Hawkins Wright

With suppliers unable to meet demand, many industry experts are wondering whether the price will pass $1,000 this year.

"It's a different ball game this time," says Mr George Petty, chairman of Repap, a large Montreal-based producer. Mr Petty points out, for instance, that for the first time he can remember, no new virgin-fibre pulp mills are under construction in North America.

Other observers who not long ago predicted at least a flattening out, and perhaps a dip, in prices later this year are confident that the tight market will continue until at least the first quarter of 1996.

Mr Roger Wright, a London-based consultant, says that even if paper consumption flattens within the next few months, pulp mills will be kept busy for a while replenishing depleted inventories.

North American and Scandinavian producer inventories were down to 18 days supply last November, from 32 days in the depths of the recession. Pulp stocks at paper mills throughout the world have also dwindled as the market has tightened.

Mr Wright adds that "the thing that has changed in the past nine to 10 months is the recognition that fibre could become either a problem or a very valuable asset".

Supplies from British Columbia and the north-west US are threatened by environmental controls on tree harvesting. Some Scandinavian mills are so short of fibre that they have imported pulpwood from Chile.

The strength of the present upturn has come as a surprise even to those accustomed to the feast-or-famine nature of the pulp and paper business.

Pulp prices were expected to be driven mainly by sturdy economic growth and rising paper consumption in North America and Europe. Pulp watchers failed, however, to appreciate the growing clout of south-east Asia.

This region, mainly Japan, Indonesia, Korea and Taiwan, accounted for about 70 per cent of last year's growth in demand. A poor cotton crop in China pushed up demand for wood pulp as a substitute raw material for rayon.

According to the CPPA, Canadian pulp shipments to Japan surged by 35 per cent in the first 11 months of last year. The Pacific region has overtaken Europe as Canada's biggest pulp market after the US.

There have also been surprises on the supply side. Disruptions in Russian birch log shipments have curtailed production at some Scandinavian mills. Two new mills in Indonesia have come on stream later than expected. A strike has shut Fletcher Challenge Canada's three mills in British Columbia for the past six weeks.

As prices spiral higher, signs are appearing that the pulp market has not broken free from the basic laws of supply and demand.

Producers in Quebec and New Brunswick have announced plans to bring mothballed mills back into production. The $1.4bn PT Riau Andalan mill in Indonesia, which is expected to produce 510,000 tonnes of hardwood pulp this year, has just entered commercial production.

Investment in de-inking projects, which process used paper for recycled pulp, has also begun to pick up. But the market for old newspapers and used packaging material is also tight. Questions are being raised about whether these projects will find adequate raw material without pushing costs even higher.

Newspaper proprietors in the UK are already feeling under pressure from rising newsprint costs which have increased by 30 to 40 per cent this year. Mr Rupert Murdoch, chairman of News International, indicated recently that he might have to raise prices on UK titles because of rising raw materials costs.

However, many paper users will probably not feel the impact of the latest increases in pulp prices, from US$700 to US$825 a tonne, until the middle of the year.

Some important markets, notably Germany and Japan, have so far been sheltered from the full impact of the price spiral by the strength of their currencies against the US dollar. If the dollar bounces back, the pain – and the temptation to find substitutes or cut consumption – would increase.

The experience of the past five years suggests that the pulp market has become much more volatile. For that reason alone, a break through the magic $1,000 a tonne barrier is possible.

But another lesson from pulp's recent performance is that the dizzier the climb, the dizzier the subsequent fall.

Barrick to spend $429m on Chilean mine

By Imogen Mark in Santiago

Barrick Gold (formerly American Barrick Resources), the Toronto-based gold mining company, will spend at least C$300m (US$429m) on development projects at its El Indio mine in Chile during the next five years.

Barrick acquired the El Indio mine complex and its adjacent prospects, on what is said to be the richest gold belt in South America, when it bought Lac Minerals, Toronto, last September.

The property produced an estimated 240,000oz of gold last year but output should almost double this year to an estimated 440,000oz when the company brings on stream its nearby Tambo mine this year.

That will bring output at Barrick's Chilean property to almost one-sixth of its total projected output of 2.6moz for this year.

Feasibility and development studies at a third site, Nevada, 48km from El Indio and Tambo, are part of the package of new investments. The third mine would add another 200,000oz and is due to be commissioned in about 1998.

The company has also allocated US$20m for further exploration in and beyond its holding on the El Indio belt, which stretches for more than 1550 sq km from northern Chile across the border to Argentina.

Barrick is only one of several North American gold mining companies active in Chile. Placer Dome, another Toronto-based company, produced about 230,000oz last year at its La Coipa silver and gold mine.

Amax Gold Inc, the gold mining subsidiary of Cyprus Amax, which is based in Colorado, has a working mine, Guanaco, with an output of 57,000oz, and a new project, Refugio, owned jointly with Bema Gold, of Vancouver.

Refugio should be shipping out gold in early 1996 and production is expected to reach 230,000oz. Amax is looking to its Chilean ventures to meet up to half its target for total annual output of 600,000-700,000oz within five years.

Chile's total gold output last year was an estimated 1.27moz (36,000kg), up from 797,000oz in 1989. The growth is mainly from new gold mines, although new copper mines coming on stream in the next five years will also increase gold output as a by-product. Gold from the copper mines accounts for about a third of the total.

Chile is also a base for companies looking to expand into other parts of South America. On the same El Indio belt, in Argentina, Barrick has acquired rights in two properties and started drilling on one using the infrastructure of its Chilean holdings.

The company already has a project in Peru – Cerro Corona – where it is carrying out definition drilling. Barrick expects to finish the feasibility study this year and to go into production in 1997.

Barrick Gold results, International Companies

MARKET REPORT

Confidence shaken as fall in copper hits base metals

Heavy selling yesterday drove down COPPER prices on the London Metal Exchange, taking them to their lowest levels since mid-December. Traders said the slide was sparked by investment funds and speculators taking profits after last year's spectacular gains.

Copper dragged other LME metal prices down with it and traders suggested that confidence in the base metals bull run was severely shaken by the losses.

News that employees at Enami, the Chilean copper smelter, had gone on indefinite strike provided some support for the price. But a report that US copper stocks rose by 2 per cent in December from the November level was seen as bearish. Three-month copper closed last night at US$2,894.50 a tonne, down $76.

"Unless we can rally quickly above $2,900, the market will have to test yet lower levels," said one LME trader.

ALUMINIUM held above the important $2,090-a-tonne technical support level and closed down $26 at $2,116.50 a tonne. Employees at Alcan's alumina plant in Jamaica ended a 10-day wages strike, after settlement of the dispute at nearby Alpart on the weekend. The plants produce 2.5m tonnes of alumina a year.

Compiled from Reuters

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	2074-5	2116-7
Previous	2100-1	2142-3
High/low	2092.5/2081.5	2133/2110
AM Official	2082-3	2125.5-6.0
Kerb close		2111-12
Open int.	229,091	
Total daily turnover	58,809	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1980-90	2020-30
Previous	2000-10	2045-55
High/low		2050/2012
AM Official	1990-2000	2030-40
Kerb close		2040-60
Open int.	2,723	
Total daily turnover	357	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	630.5-1.5	649-50
Previous	654.5-5.5	672-3
High/low		654/640
AM Official	629.5-30.0	646-7
Kerb close		644-45
Open int.	37,927	
Total daily turnover	9,466	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	9665-75	9835-40
Previous	9895-905	10065-70
High/low	9660	10025/9780
AM Official	9660-5	9810-20
Kerb close		9770-80
Open int.	56,767	
Total daily turnover	14,647	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5865-75	5960-70
Previous	6170-80	6270-5
High/low		6210/5930
AM Official	6005-6	6100-5
Kerb close		5930-50
Open int.	21,885	
Total daily turnover	8,021	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1120-1	1147-8
Previous	1134-5	1162-3
High/low	1116.5	1149/1139
AM Official	1116.5-7.5	1144-5
Kerb close		1143-4
Open int.	100,191	
Total daily turnover	24,339	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2898-99	2894-5
Previous	2977-8	2970-1
High/low	2938/2932	2950/2885
AM Official	2931-3	2918-9
Kerb close		2884-5
Open int.	231,512	
Total daily turnover	84,986	

■ LME AM Official £/$ rate: 1.5780
LME Closing £/$ rate: 1.5907

Spot:1.5907 3 mths:1.5788 6 mths:1.5760 9 mths:1.5763

■ HIGH GRADE COPPER (COMEX)

	Close	Day's change	High	low	Open int	Vol
Feb	133.10	-4.70	136.90	133.10	1,500	132
Mar	132.20	-4.10	135.90	132.00	28,808	10,851
Apr	131.20	-3.85	133.60	132.00	1,025	5
May	130.10	-3.35	132.80	130.00	6,720	1,074
Jun	128.60	-3.05	130.20	129.00	697	4
Jul	127.00	-2.75	129.00	128.20	4,263	334
Total					51,134	12,984

PRECIOUS METALS

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol
Feb	376.7	+1.3	377.7	376.4	7,174	3,861
Mar	377.3	+1.3	-	-	4	-

ENERGY

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Mar	108.95	-0.60	109.25	108.75	1,358	109
May	110.85	-0.65	111.00	110.50	1,956	99

■ FREIGHT (BIFFEX) LCE ($10/index point)

Jan	1699	-	-	-	737	-
Total					3,764	368

	Close	Prev
BFI	1966	1973

Nuts and Seeds
1994 crop prices, US$/tonne, from Kenkko Group. Iranian pistachios 28/30 raws, in shell, $3,550 free on truck, Hamburg. Market has pulled back, but expected to stay firm for short term. Iranian market erratic but strong. US almonds, shelled, 18/20 (nonpareil supreme – nutbrown skin, outers unscratched) $4100 free alongside steamer, California; firm, on concern for Feb blossoms. US walnuts, shelled, light halves, pieces 20% $4,190 FAS, Cal; steady. Indian cashews, raw, W320, $5,250 c&f main European ports; steadier. Turkish hazelnut kernels, 13/15 standard 1s, $3,800 c&f MEP; easy on seasonal factors. Israeli sunflower seeds, raw, 8mm-plus, $1,950 c&f MEP. North Dakota raws, round, $730 c&f MEP. Sunflower market easier. Snow white Russian pumpkin seed $2,300 c&f MEP; firm. Sesame seed, 98.2% natural, $1,100 c&f Holland; firm.

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Mar	1005	-2	1010	1001	34,324	1,432
May	1006	-3	1012	1002	19,258	755

■ COTTON NYCE (50,000lbs; cents/lbs)

Oct	78.50	-0.50	78.95	78.60	4,076	268
Dec	74.03	-0.38	74.25	73.85	14,391	998
Mar	75.15	-0.35	75.50	75.00	1,266	358
Total					74,841	7,484

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

Mar	104.10	+1.30	104.90	103.35	18,262	1,122
May	108.05	+1.25	108.90	107.25	3,752	508
Jul	111.80	+1.50	112.25	111.25	1,081	185
Sep	115.50	+1.50	115.50	115.25	2,728	177
Nov	113.85	+1.20	-	-	2,032	10
Jan	114.85	+1.20	114.75	114.75	919	150
Total					28,887	2,232

VOLUME DATA
Open Interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears.

INDICES

■ REUTERS (Base: 18/9/31=100)

Feb 1	Jan 31	month ago	year ago
2260.4	2258.5	2226.9	1742.7

■ CRB Futures (Base: 1967=100)

Jan 31	Jan 30	month ago	year ago
232.78	233.72	234.76	226.99

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Feb	73.725	-0.625	74.300	73.575	18,117	6,072
Apr	73.375	-0.775	74.050	73.200	42,497	7,793

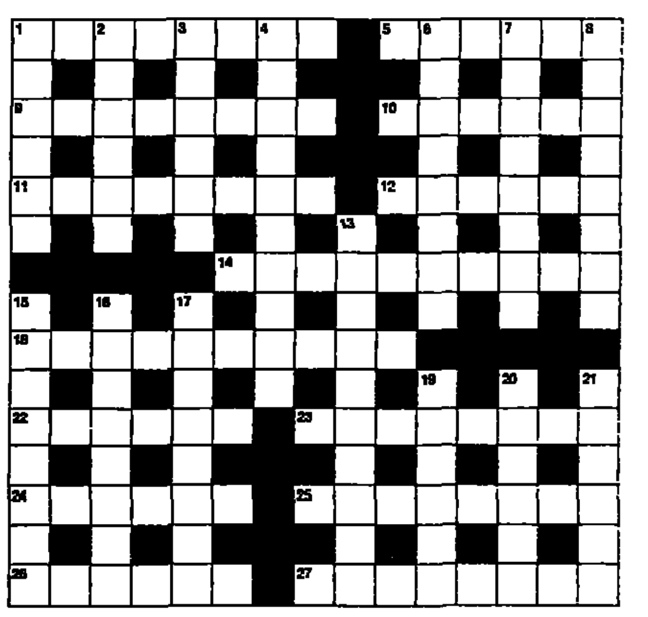
LONDON TRADED OPTIONS

LONDON SPOT MARKETS

JOTTER PAD

CROSSWORD

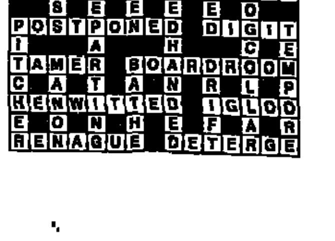
No.8,676 Set by ADAMANT



ACROSS
1 About one tug in five is a runner (8)
5 Turn hot and cold about it having a certain style (6)
9 Suit ruined in extra dampness (8)
10 Drawing room (6)
11 Heroic international workers use the RAF to bring help (8)
12 After six, we in France like wine (6)
14 Person with a sporting chance of being X-rated? (10)
18 It sheds light on composer that is held in credit (10)
22 Cut round every plant (6)
23 Several letters in one day carry no weight (8)
24 Leading holders of rebates in tax chest (6)
25 Organiser telephoned in rare agitation (8)
26 Far from concerned about a speck of dust (6)
27 Support set out in foothold (8)

DOWN
1 Endless commotion about a brief moment of renown (6)
2 Instrument raises rating – not new, but universal (6)
3 Time to organise tour's coaches (6)
4 Exchange rate mechanism in firm grip – feeling sick over Italian staple (10)
6 Left in? Absolute opposite! (8)
7 Initially the lightest gas could also be hot (8)
8 Costlier material for the arcade (8)
13 Care about those belonging to us in the church at York, for example (10)
15 Charismatic, but without tea, volatile and for the chopper (8)
16 Space for a Lineker, say, to manoeuvre and perform his one step? (8)
17 Drink for lawyer at replacement of note (8)
19 First high honour – time for respect (6)
20 Scare a fellow Tory (6)
21 Unethical to put exam at end of morning (6)

Solution 8,675



INTERNATIONAL CAPITAL MARKETS

Treasury prices fall after rise in interest rates

By Lisa Bransten in New York and Graham Bowley in London

US Treasury prices dropped minutes after the Federal Reserve did exactly what Wall Street expected yesterday and raised the target interest rate by 50 basis points to 6 per cent.

At 2.30pm in New York, the benchmark 30-year Treasury was down $\frac{3}{16}$ at $97\frac{12}{32}$ to yield 7.717 per cent. At the short end of the market, the two-year note fell ⅛ to $100\frac{11}{32}$, yielding 7.294 per cent.

Prices had been mostly steady in light trading through the morning as traders awaited word from the meeting of the Fed's Open Market Committee, which concluded a two-day session yesterday.

Prices were somewhat lower in early trading after the National Association of Purchasing Management put its index of business activity for January at a stronger than expected 57.9 per cent compared with 57.5 per cent for December. Most economists had expected a modest decrease in the NAPM figures.

The increase was attributed in large part to a jump in the employment component of the index, but that increase was partially offset by a drop in the closely watched prices-paid sub-index.

Later the market was buoyed by data from the Commerce Department that showed the index of leading economic indicators up only 0.1 per cent for December – in line with the median forecast by economists. So prices were nearly flat just ahead of the rate increase.

Another factor putting pressure on bonds was a weaker dollar, which lost ground against the Japanese yen and the D-Mark. A weaker dollar hurts the bond market by discouraging foreign investors from buying US securities.

However, other markets and economic news seemed secondary yesterday as traders held their breath in anticipation of the Fed announcement.

GOVERNMENT BONDS

■ The downward revision by Standard & Poor's of Italy's long-term debt outlook from stable to negative failed to unnerve the Italian government bond market.

Bond prices fell after S&P's announcement but recovered some ground when traders realised the reasons for S&P's announcement were already discounted by the market.

"There was nothing new in the announcement. Once the market appreciated why S&P had changed its view it discovered it was already well discounted and the spread with bunds was restored and maintained," said Mr Pio de Gregorio, economist at NatWest Markets in London.

The 10-year yield spread closed back in to 493 basis points over bunds.

■ Trading in other European government bond markets was subdued and prices moved in tight ranges with dealers' occupied by developments in the US.

On Liffe, only 30,400 March gilt futures contracts were traded and fewer than 100,000 March bund futures contracts.

■ German government bonds ended flat on the day after strong industrial production numbers eroded early gains.

The prospect of further supply next week, when the Bundesbank is due to open another tranche of its new year bund, also weighed on the market, Mr Adrian Owens, economist at Yamaichi in London said.

■ UK government bonds moved slightly higher, trading sideways for most of the day after opening firmer on overnight gains in the US.

"We saw some buying in the five and 10-year areas and some investors are looking to switch long out of the five-year into 10-year gilts, after the five-year's good performance over the last few days. But the large funds are waiting on the sidelines for the Fed to act and then for the outcome of the meeting on Thursday," one gilts salesman said.

The regular monthly meeting between the Bank of England and the Treasury takes place tomorrow. Most dealers think that a ½ percentage point rise in base rates is already discounted by the market.

The gilt yield spread over bunds narrowed to 127 basis points.

■ French government bonds climbed higher yesterday, outperforming bunds.

Shorter-dated bonds in particular performed well, outperforming the longer-end of the yield curve.

"The recent strength of the US dollar dragged the French franc higher and this impacted on the short-end of the yield curve," said Mr Owens at Yamaichi.

The spread over bunds narrowed to 63 basis points.

January rally for government bonds

By Graham Bowley

Government bond markets around the world rallied last month, with the US performing best and core European markets benefiting from a flight to quality from higher-yielding countries.

J.P. Morgan's government bond report for January shows most countries enjoyed higher total returns compared with December, with its global index ending the month with a positive return of 1.34 per cent in local currency terms against 0.09 per cent in December.

The US posted a return of 1.74 per cent, compared with 0.57 per cent in the previous month, with a "slowdown in consumer spending and an increase in inventory accumulation" boosting market confidence, the report says.

Australia, which topped the index in December, fell to the bottom last month and was the only country to post a loss, with a negative return of minus 0.49 per cent. It fell in price terms by 1.3 per cent in January.

The Canadian market was also hit. It posted a small rise on a total return basis but fell by 0.38 per cent in price terms due to "the fear of increased interest rates, uncertainty about the government's plan to reduce the budget deficit, along with political developments in Quebec".

France and Germany were the main beneficiaries of the flight to quality as investors moved out of both higher yielding developed markets and emerging markets.

However, in France concerns about tax rises after the forthcoming presidential elections, interest rate fluctuation and bond market volatility caused the French yield curve to further steepen.

French two-year yields fell by some 30 basis points while 10-year bond yields dropped by about 20 basis points.

The search for a safe haven led the German bond market to post a strong positive return of 1.61 per cent.

In the UK, government bonds posted a total return of 1.36 per cent last month after a negative return of minus 0.6 per cent in December.

Brady bonds fail to hold on to Tuesday's gains

By Richard Lapper

Brady bonds yesterday failed to consolidate on Tuesday's rally, with prices of the main classes of Mexican, Argentine and Brazilian paper down between 1 and 2 per cent.

Mexico par bonds fell by 1¼ cents to close in London at $0.53¼, while discount bonds fell by 1¼ cents to $0.69.

Argentine FRBs and par bonds fell by 1 cent to close at $0.59¾ and ¾ cents to $0.44, respectively. Brazilian IDUs – the most liquid Brazilian paper – fell by one cent to close at $0.79¼, while pars were down by 1½ cents to close at $0.40.

Analysts were disappointed by the performance, attributing the decline to short covering by traders.

"It is taking a while for new buyers to come into the market," said Ms Ingrid Iversen, senior economist at Morgan Grenfell Emerging Markets.

Buoyed by news of the the new international package of financial support for Mexico, prices rose sharply on Tuesday, with Latin American Bradys showing an increase of nearly 6 per cent on the day, according to the J.P. Morgan emerging market bond index (which measures total returns).

Between the Mexican devaluation on December 20 and January 31 J.P. Morgan's Latin index fell by 11.7 per cent, while on the same measure and over the same period Mexican Bradys fell 15.4 per cent.

Brady bonds, which are issued by governments in exchange for restructured commercial bank debt, are the biggest class of emerging market fixed income paper.

Attention switches to minor currencies

By Martin Brice

Eurobond issuance slowed to a trickle yesterday as investors waited for the expected rise in dollar interest rates from the meeting of the Federal Open Market Committee.

Borrowers' attention has switched to minor currencies, which are less affected by changes in dollar rates.

INTERNATIONAL BONDS

For instance, the European Investment Bank is believed to be entering the drachma sector with a floating-rate five-year bond.

Yesterday saw developments in the peseta, Ecu and D-Mark sectors.

The European Investment Bank brought a Pta25bn, three-year deal carrying an 11.2 per cent coupon through book-runner Banco Santander de Negocios and joint lead UBS. The banks worked together on the EIB's Pta20bn offering last October and its increase in November.

Yesterday's issue was sold in Switzerland and the Benelux region to retail investors.

Commerzbank Overseas Finance used Commerzbank to bring a floating-rate issue in two tranches of DM250m, over five and 10 years.

The market-maker will be Commerzbank Financial Products (CFP), the bank's derivatives arm, which started operating in October.

The coupon is reset each year and linked to an index of 10-year bonds. Mr Paul Mizrahi, head of interest rate derivatives at CFP, said this allowed investors to diversify portfolios while reducing volatility. He said the bonds were sold to retail and institutional investors in Germany, Austria and France.

Commerzbank said this was the first DM bond with a coupon reset annually and linked to an index. There has been a market since 1986 in such bonds in France, where FFr130bn worth have been issued.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
D-MARKS							
Commerzbank O'seas Finance‡	250	(a1)	100.00	Feb.2000	undisd.	-	Commerzbank
Commerzbank O'seas Finance‡	250	(a2)	100.00	Feb.2005	undisd.	-	Commerzbank
ECUS							
Eurofima(b)	50	8.125	101.484	Dec.1999	1.75	-	Barclays de Zoete Wedd
PESETAS							
European Investment Bank	25bn	11.20	101.116	Mar.1998	1.375	-	BSN

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. R: fixed re-offer price; fees shown at re-offer level. a) Coupons linked to 10-yr interest rate index (REX Rendite subindex). a1) 85% of reference index. a2) Reference index -79bp. b) Fungible with Ecu170m. Plus 73 days accrued.

S&P revises Italy outlook

By Graham Bowley

Standard & Poor's, the US credit rating agency, yesterday revised downwards Italy's long-term debt rating outlook to negative from stable.

S&P said that this reflected "the increasing risk that Italy's weak political leadership will fail to address the country's growing, serious fiscal and political problems during this and the next several years".

However, S&P left unchanged and reaffirmed the AA rating of the country's long-term foreign currency debt and the A-1 plus rating of its short-term foreign currency debt.

S&P said: "The prospect of continued policy and political uncertainty threatens to undermine the market confidence necessary to sustain Italy's robust domestic and external economic performance."

It said that the new government's fiscal reform programme was vulnerable to the government's dependence on the left-centre opposition and much of Mr Silvio Berlusconi's former centre right alliance.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		9.000	09/04	92.6800	+1.200	10.21	10.40	10.11
Austria		7.500	01/05	98.6000	-0.120	7.70	7.71	7.65
Belgium		7.750	10/04	96.2400	+0.100	8.32	8.45	8.38
Canada *		9.000	12/04	98.7500	+0.700	9.19	9.52	9.04
Denmark		7.000	12/04	87.6500	+0.250	8.93	9.06	8.86
France	BTAN	8.000	05/98	101.0900	+0.050	7.59	7.60	7.27
	OAT	7.500	04/05	95.9700	+0.190	8.08	8.16	8.19
Germany Bund		7.375	01/05	99.5800	+0.060	7.43	7.54	7.52
Ireland		8.250	10/04	83.5500	+0.100	8.79†	8.78	8.77
Italy		8.500	08/04	80.6100	+0.180	11.98	12.01	11.96
Japan	No 119	4.800	06/99	103.0380	-0.900	4.00	3.80	3.86
	No 164	4.100	12/03	96.3050	-0.060	4.69	4.71	4.54
Netherlands		7.250	10/04	97.5800	-0.060	7.60	7.71	7.66
Portugal		8.875	01/04	84.0000	+0.500	11.64	11.64	11.57
Spain		10.000	02/05	89.5900	+0.110	11.71	11.84	11.53
Sweden		6.000	02/05	71.1100	+0.614	10.88	11.16	10.80
UK Gilts		8.000	06/99	90-26	+1/32	8.49	8.68	8.43
		6.750	11/04	88-07	+4/32	8.55	8.74	8.48
		9.000	10/08	103-24	+6/32	8.53	8.71	8.46
US Treasury *		7.875	11/04	101-30	+12/32	7.59	7.86	7.80
		7.500	11/24	97-22	+15/32	7.70	7.93	7.85
ECU (French Govt)		8.000	04/04	84.4000	+0.200	8.50	8.64	8.59

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Lunchtime		Treasury Bills and Bond Yields			
		One month	5.13	Two year	7.24
Prime rate	8½	Two month	5.60	Three year	7.37
Broker loan rate	8½	Three month	6.00	Five year	7.51
Fed.funds	6	Six month	6.39	10-year	7.59
Fed.funds at intervention	-	One year	6.79	30-year	7.70

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	111.52	111.58	+0.26	111.74	111.50	116,294	129,152
Jun	110.74	110.76	+0.26	110.88	110.68	145	6,325
Sep	110.08	110.10	+0.25	110.08	110.08	2	1,551

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Feb	Calls Mar	Calls Jun	Puts Feb	Puts Mar	Puts Jun
109	2.70	-	-	0.10	0.87	-
110	1.81	1.96	-	0.21	-	-
111	1.04	1.40	-	0.45	-	-
112	0.50	0.97	-	0.91	-	-
113	0.18	0.61	-	1.60	-	-

Est. vol. total, Calls 14,310 Puts 33,273. Previous day's open int., Calls 184,709 Puts 180,567.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	90.56	90.38	-0.05	90.61	90.35	98437	207272
Jun	89.93	89.83	-0.03	90.00	89.82	1494	8489

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Mar	Calls Apr	Calls May	Calls Jun	Puts Mar	Puts Apr	Puts May	Puts Jun
9000	0.71	0.68	0.86	1.01	0.33	0.85	1.02	1.18
9050	0.43	0.49	0.65	0.79	0.55	1.16	1.32	1.46
9100	0.24	0.33	0.48	0.61	0.86	1.50	1.85	1.78

Est. vol. total, Calls 12445 Puts 11483. Previous day's open int., Calls 192586 Puts 126697

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	99.76	99.45	-0.13	99.92	99.38	34470	54023
Jun		98.48	-0.13			0	683

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Mar	Calls Jun	Puts Mar	Puts Jun
9900	1.07	1.78	0.62	2.30
9950	0.80	1.54	0.85	2.56
10000	0.56	1.33	1.11	2.85

Est. vol. total, Calls 3320 Puts 1808. Previous day's open int., Calls 25751 Puts 25407

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	84.55	84.47	+0.13	84.57	84.40	40,417	47,260
Jun	-	84.03	-	-	-	151	675

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	102-01	102-03	+0-05	102-08	102-00	30400	96160
Jun	102-10	102-10	+0-05	102-14	102-10	87	1940

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Mar	Calls Jun	Puts Mar	Puts Jun
102	0-51	2-00	0-45	1-44
103	0-24	1-32	1-18	2-12
104	0-09	1-05	2-03	2-49

Est. vol. total, Calls 3432 Puts 1235. Previous day's open int., Calls 48791 Puts 49979

Ecu

■ ECU BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	81.50	81.54	+0.24	81.68	81.50	4,785	8,450
Jun	-	81.28	+0.24	-	-	-	-

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Mar	101-17	101-19	+0-04	101-26	101-16	399,866	348,474
Jun	101-03	101-03	+0-03	101-10	101-01	5,861	28,689
Sep	100-25	100-25		100-25	100-25	358	4,192

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol.	Open int.
Mar	108.38			108.39	108.21	3193	0
Jun	107.63			107.63	107.44	455	0

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Wed Feb 1	Day's change %	Tue Jan 31	Accrued interest	xd adj. ytd
1 Up to 5 years (24)	119.02	+0.06	118.95	1.55	1.40
2 5-15 years (22)	139.82	+0.16	139.59	1.86	1.59
3 Over 15 years (9)	155.64	+0.33	155.25	0.74	2.96
4 Irredeemables (6)	179.22	+0.38	178.53	2.52	0.00
5 All stocks (61)	136.63	+0.16	136.43	1.50	1.74
Index-linked					
6 Up to 5 years (2)	189.69	+0.01	189.66	1.71	0.00
7 Over 5 years (11)	174.31	+0.10	174.13	0.82	0.59
8 All stocks (13)	174.99	+0.09	174.83	0.72	0.53

Yield	Low coupon Feb 1	Low coupon Jan 31	Low coupon Yr. ago	Medium coupon Feb 1	Medium coupon Jan 31	Medium coupon Yr. ago	High coupon Feb 1	High coupon Jan 31	High coupon Yr. ago
5 yrs	8.53	8.55	5.69	8.54	8.66	6.91	8.72	8.74	6.02
15 yrs	8.43	8.46	6.47	8.55	8.58	6.58	8.76	8.80	6.75
20 yrs	8.40	8.43	6.57	8.55	8.58	6.60	8.67	8.72	6.77
Irred.†	8.46	8.50	6.65						

Index-linked	Inflation 5% Feb 1	Inflation 5% Jan 31	Inflation 5% Yr. ago	Inflation 10% Feb 1	Inflation 10% Jan 31	Inflation 10% Yr. ago
Up to 5 yrs	3.82	3.81	2.25	2.53	2.52	1.39
Over 5 yrs	3.88	3.89	2.93	3.89	3.89	2.75

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Feb 1	Jan 31	Jan 30	Jan 27	Jan 26	Yr ago	High*	Low*
Govt. Secs. (UK)	91.53	91.33	91.28	90.99	90.61	108.05	107.04	89.54
Fixed Interest	109.64	109.57	109.52	109.40	109.11	132.33	233.87	106.50

* for 1994/5. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 133.87 (21/1/94), low 50.53 (3/1/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

GILT EDGED ACTIVITY INDICES

	Jan 31	Jan 30	Jan 27	Jan 26	Jan 25
Gilt Edged bargains	97.4	96.6	105.3	98.7	137.7
5-day average	105.4	102.7	101.2	98.1	92.8

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on February 1

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 03	1000	89⅞	89⅝	+¼	8.32
Alberta Province 7⅞ 98	1000	98⅞	99¼		7.97
Austria 8½ 00	400	102⅜	102¾	+⅛	7.90
Bank Ned Gemeenten 7 99	1000	97	97¼	+⅛	7.79
Bank of Tokyo 8¾ 96	100	100⅝	101		7.75
United Kingdom 7¼ 97	5500	101⅛	101½	+¼	6.54
Volkswagen Intl Fin 7 03	1000	94¾	95⅛	+⅜	7.87
World Bank 0 15	2000	21¾	22	-½	7.68
World Bank 5⅞ 03	3000	89¼	89¼	+⅜	7.59
World Bank 8¾ 00	1250	110¾	110¾	-⅜	6.37
Abbey Natl Treasury 8 03 £	1000	92⅝	92⅞	+⅛	9.32
Alliance Leics 11⅞ 97 £	100	105⅛	105⅝	+⅛	8.68
British Land 8⅞ 23 £	150	89⅞	90⅛	+¼	10.19
Denmark 6¾ 98 £	800	93¾	94		8.85
EIB 8 03 £	1000	94¼	94¾	+⅛	8.89

[illegible]

UK GILTS PRICES

	Notes	Yield Int.	Yield Red	Price £	+ or –	1994/95 High	1994/95 Low
Shorts" (Lives up to Five Years)							
Exch 3pc Gas 1990-95		3.02	6.16	99½	+1/32	103¼	97¼
10¼pc 1995		10.08	6.77	101⅞	——	107⅞	101⅞
Treas 12¾pc 1995‡‡		12.21	6.85	104⅞	-1/16	113⅝	104⅞
14pc 1996		13.16	7.08	106⅞	-⅛	117⅞	106⅞
15¼pc 1996‡‡		13.98	7.35	109⅛	——	121⅞	109⅛
Conversion 9½pc 2004		9.00	8.64	105			
Treas 8¼pc 2004‡‡		7.65	8.54	88			
8½pc 2005		8.52	8.51	99			
Conv 9½pc 2005		8.97	8.61	105			
Treas 12½pc 2003-5		10.27	8.88	121			
7¾pc 2006‡‡		8.22	8.54	94¼			

[illegible]

* 'Tap' stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock.

CURRENCIES AND MONEY

MARKETS REPORT

Fed raises US interest rates by 50 basis points

The dollar fell slightly yesterday after the US Federal Reserve announced a 50 basis point rise in short term interest rates, *writes Philip Gawith.*

The Fed lifted the discount rate to 5¼ per cent, and the federal funds rate to 6 per cent. It was the seventh rise in interest rates since the Fed first started to raise rates on February 4 last year.

In the thirty minutes after the Fed's announcement, at 19h14 GMT, the market seemed unsure whether to take the dollar up or down, perhaps reflecting the extent to which the move was discounted in the market. From DM1.5210 when the news came out, it fell to DM1.5170 before recovering. At 20h00 it was trading at DM1.5190.

Canada followed the Fed's example, by lifting the target range for its call loan rate by 50 basis points to 7.25-7.75 per cent.

Analysts said higher US rates made a rise in UK rates, following the monthly monetary meeting today, more likely.

In European trading, before the Fed acted, the D-Mark was fairly stable, following losses suffered on Tuesday after the dollar surged on President Clinton's announcement of a rescue package for Mexico.

The Franc finished in London at FFr3.465, from FFr3.471. The lira finished at L1,056, from L1,057.

The Bundesbank council meets today. There is little expectation of a cut in official rates, but some speculation that the bank might return to a variable rate repo. This would be in order to allow a slight easing of the repo rate, which has been fixed at 4.85 per cent since last July.

■ Commenting ahead of the Fed's announcement, Mr Tim Fox, international economist at CS First Boston in London said "the suspicion that the dollar's woes have not all been wholly Mexican related will also now be tested."

"The markets still require reassurance on the domestic front before they will feel comfortable with the dollar." Mr Fox said markets needed to know whether or not interest rates had reached a plateau.

He said what markets were hoping for was the "soft landing, confidence boosting" scenario of slowing growth and subdued inflation. In this event, foreign capital inflows, supportive of the dollar, could be expected.

■ Both the peso and the Canadian dollar have benefited from the announcement of the Mexican rescue package.

On Tuesday, after trading around C$1.42 to the dollar, the Canadian currency broke decisively through a trend intact since November. Mr Chris Dunne, technical analyst at Forexia (U.K.), said if it breached support at C$1.4070, it could strengthen as far as C$1.3880. It was trading at C$1.4068 after rates were raised.

Concerns about the fiscal situation in Canada generally, as well as some of the provinces, together with continued worries about Quebec and some spillover effect from Mexico, have contributed to recent currency weakness.

The next test for the dollar will come when the Liberal government announces its budget plans later this month. Investors will need to be convinced that the government has got to grips with its deficit problem, for a turnaround in the dollar to be achieved.

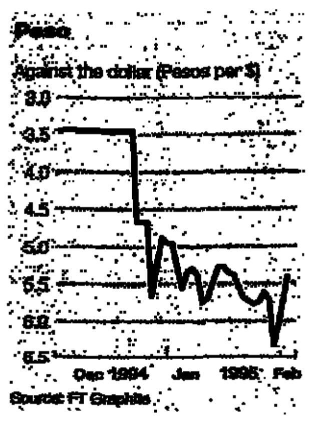
The peso, meanwhile, continued its sharp recovery as a semblance of stability returned to Mexican markets. It closed in London at 5.455 pesos against the dollar, from 6.35 pesos on Tuesday.

■ Ahead of the monthly monetary meeting in the UK, Mr Jonathan Griggs, economic adviser at Barclays in London, said recent comments from Mr Eddie George, the governor, suggested he was preparing the ground for a further pre-emptive rate rise.

"Mr George is continuing the process of educating UK markets that while the long-term outlook for inflation is favourable because inflationary psychology within the economy has improved, there are risks of an acceleration of inflation in the short-term. Hence the requirement for a pre-emptive tightening of policy."

Support for a policy tightening came from the purchasing managers' index, where the prices component rose to 75.8 from 71.6.

In its daily operations, the Bank of England cleared a £700m shortage at established rates. Three month money firmed to 6¾ per cent from 6 11/16 per cent.



■ **Pound in New York**

Feb 1	—Latest—	– Prev. close –
£ spot	1.5834	1.5800
1 mth	1.5829	1.5797
3 mth	1.5818	1.5785
1 yr	1.5782	1.5731

■ **OTHER CURRENCIES**

Feb 1	£	$
Hungary	179.055 - 179.293	113.240 - 113.340
Iran	2731.00 - 2734.00	1748.68 - 1750.00
Kuwait	0.4726 - 0.4730	0.2989 - 0.2990
Poland	3.8486 - 3.8511	2.4340 - 2.4345
Russia	6449.75 - 6454.50	4078.00 - 4081.00
U.A.E.	5.8070 - 5.8103	3.6725 - 3.6730

POUND SPOT FORWARD AGAINST THE POUND

Feb 1		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	16.8503	+0.0955	426 - 580	16.8954	16.7796	16.8378	0.9	16.8041	1.1	-	-	105.5
Belgium	(BFr)	49.5705	-0.0445	453 - 957	49.7060	49.5453	49.57	1.1	49.4155	1.3	48.9255	1.3	107.2
Denmark	(DKr)	9.4941	-0.0068	896 - 985	9.5151	9.4891	9.4963	0.6	9.4791	0.6	9.4363	0.6	106.6
Finland	(FM)	7.4556	-0.0744	482 - 634	7.5490	7.4482	-	-	-	-	-	-	84.1
France	(FFr)	8.3443	-0.0033	408 - 477	8.3603	8.3400	8.3422	0.8	8.3259	0.9	8.2856	0.9	107.2
Germany	(DM)	2.4063	+0.0028	074 - 092	2.4120	2.4057	2.4026	1.3	2.3969	1.6	2.3843	1.8	109.2
Greece	(Dr)	375.302	-0.209	061 - 543	376.001	373.586	-	-	-	-	-	-	69.1
Ireland	(I£)	1.0123	-0.0012	116 - 129	1.0134	1.0109	1.0132	0.4	1.0117	0.2	1.0103	0.2	97.5
Italy	(L)	2544.32	+2.02	336 - 528	2554.55	2538.26	2548.3	-1.9	2562.12	-2.8	2603.57	-2.3	73.8
Luxembourg	(LFr)	49.5705	-0.0445	453 - 957	49.7060	49.5453	49.57	1.1	49.4155	1.3	48.9255	1.3	107.2
Netherlands	(Fl)	2.6988	+0.0005	974 - 001	2.7045	2.6932	2.6955	1.2	2.6886	1.5	2.6523	1.7	107.1
Norway	(NKr)	10.5446	-0.0084	403 - 489	10.5655	10.5144	10.5501	0.1	10.542	0.1	10.5316	0.1	98.1
Portugal	(Es)	248.936	+0.151	723 - 149	249.340	248.723	249.385	-2.9	251.186	-3.6	-	-	95.4
Spain	(Pta)	208.986	-0.319	861 - 111	209.336	208.861	209.655	-2.0	210.091	-2.1	214.061	-2.4	78.8
Sweden	(SKr)	11.7931	-0.0513	829 - 032	11.8560	11.7873	11.8579	-1.4	11.8326	-1.3	11.9408	-1.3	80.6
Switzerland	(SFr)	2.0345	+0.009	336 - 354	2.0364	2.0295	2.0213	2.5	2.0213	2.6	1.9744	3.0	108.3
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	88.7
Ecu	-	1.2748	+0.0007	738 - 754	1.2767	1.2736	1.2734	0.5	1.2729	0.5	1.2673	0.6	-
SDR†	-	0.926963	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5817	-0.006	812 - 821	1.5832	1.5777	-	-	-	-	-	-	-
Brazil	(Cr)	1.3293	-0.0065	282 - 304	1.3324	1.3288	-	-	-	-	-	-	-
Canada	(C$)	2.2289	-0.0149	279 - 297	2.2303	2.2211	2.232	-1.7	2.2373	-1.5	2.251	-1.0	81.5
Mexico	(New Peso)	8.6274	-1.453	859 - 888	9.0214	8.5347	-	-	-	-	-	-	-
USA	($)	1.5816	-0.0059	812 - 819	1.5832	1.5775	1.5813	0.2	1.5801	0.4	1.5749	0.4	95.7
Pacific/Middle East/Africa													
Australia	(A$)	2.0914	-0.0052	902 - 925	2.0953	2.0902	2.0939	-1.4	2.1	-1.6	2.1341	-2.0	87.6
Hong Kong	(HK$)	12.2309	-0.0523	274 - 344	12.2429	12.2012	12.2299	0.1	12.2584	-0.8	12.1562	0.6	-
India	(Rs)	49.6133	-0.193	983 - 282	49.6610	49.4900	-	-	-	-	-	-	-
Israel	(Shk)	4.7615	-0.0056	558 - 671	4.8220	4.7422	-	-	-	-	-	-	-
Japan	(Y)	157.301	+0.223	187 - 415	157.420	157.040	156.811	3.7	155.521	4.5	149.721	4.8	148.1
Malaysia	(M$)	4.0388	-0.0211	371 - 405	4.0449	4.0302	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.4772	-0.0054	753 - 791	2.4836	2.4753	2.4816	-2.1	2.4912	-2.3	2.5214	-1.8	98.9
Philippines	(Peso)	38.8271	-0.1448	394 - 147	38.9147	38.7394	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.9315	-0.0221	298 - 331	5.9373	5.9164	-	-	-	-	-	-	-
Singapore	(S$)	2.2977	-0.0097	964 - 990	2.3005	2.2924	-	-	-	-	-	-	-
S Africa (Com.)	(R)	5.6102	+0.0013	077 - 126	5.6148	5.5874	-	-	-	-	-	-	-
S Africa (Fin.)	(R)	6.4164	-0.108	991 - 336	6.4845	6.3972	-	-	-	-	-	-	-
South Korea	(Won)	1248.48	-4.85	804 - 891	1249.82	1245.44	-	-	-	-	-	-	-
Taiwan	(T$)	41.5782	-0.1551	618 - 945	41.8144	41.4788	-	-	-	-	-	-	-
Thailand	(Bt)	39.6740	-0.0917	312 - 168	39.7168	39.6080	-	-	-	-	-	-	-

†SDR rates for Jan 31. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Feb 1		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P Morgan index
Europe													
Austria	(Sch)	10.7175	+0.1	150 - 200	10.7430	10.7030	10.61	0.8	10.5902	1.0	10.4575	1.5	105.3
Belgium	(BFr)	31.3430	+0.0885	340 - 520	31.4380	31.3310	31.2325	0.8	31.1845	0.9	30.9795	0.9	106.8
Denmark	(DKr)	6.0030	+0.018	015 - 045	6.0210	5.9980	5.9832	0.4	5.981	0.3	5.976	0.2	106.4
Finland	(FM)	4.7143	-0.0293	105 - 180	4.7715	4.7105	4.7418	0.4	4.7371	0.5	4.7286	0.3	82.4
France	(FFr)	5.2760	+0.0175	750 - 770	5.2930	5.2705	5.2561	0.6	5.2517	0.5	5.231	0.5	106.5
Germany	(DM)	1.5228	+0.0075	225 - 230	1.5269	1.5206	1.5139	1.1	1.5108	1.2	1.4938	1.4	108.6
Greece	(Dr)	237.300	+0.75	200 - 400	237.900	236.000	239.55	-15.2	244.3	-13.1	256.7	-8.5	68.4
Ireland	(I£)	1.5625	-0.0039	618 - 631	1.5650	1.5580	1.5668	-0.1	1.5682	0.1	1.5654	0.1	-
Italy	(L)	1608.75	+7.25	850 - 900	1614.25	1606.00	1604.35	-2.1	1611.2	-2.4	1646	-2.8	73.1
Luxembourg	(LFr)	31.3430	+0.0885	340 - 520	31.4380	31.3310	31.2325	0.8	31.1845	0.9	30.9795	0.9	106.8
Netherlands	(Fl)	1.7064	+0.0068	059 - 069	1.7115	1.7026	1.6984	1.0	1.6949	1.1	1.6775	1.3	106.6
Norway	(NKr)	6.6673	+0.0208	660 - 685	6.6875	6.6421	6.6422	0.8	6.636	0.6	6.594	0.8	97.1
Portugal	(Es)	157.400	+0.68	300 - 500	157.700	157.300	157.105	-2.9	158.125	-3.6	162.575	-3.7	95.4
Spain	(Pta)	132.140	+0.29	090 - 190	132.490	132.050	132.095	-2.2	132.67	-2.5	135.65	-2.9	78.2
Sweden	(SKr)	7.4567	-0.0046	519 - 614	7.5000	7.4518	7.471	-1.6	7.4928	-1.7	7.5683	-1.7	79.7
Switzerland	(SFr)	1.2864	+0.0104	861 - 867	1.2895	1.2835	1.2736	2.2	1.2688	2.3	1.2432	2.6	107.9
UK	(£)	1.5816	-0.0059	812 - 819	1.5832	1.5775	1.5872	0.2	1.586	0.4	1.5808	0.4	88.3
Ecu	-	1.2408	-0.0054	403 - 413	1.2419	1.2379	1.2464	-0.2	1.2488	-0.2	1.248	-0.1	-
SDR†	-	1.47670	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.0001	-0.0001	000 - 001	1.0001	1.0000	-	-	-	-	-	-	-
Brazil	(Cr)	0.8405	-0.001	400 - 410	0.8430	0.8400	-	-	-	-	-	-	-
Canada	(C$)	1.4093	-0.0041	090 - 095	1.4095	1.4060	1.4157	-1.8	1.42	-1.9	1.4339	-1.5	80.7
Mexico	(New Peso)	5.4550	-0.895	300 - 800	5.4800	5.3600	6.3508	-0.2	6.3512	-0.1	6.3526	0.0	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	98.9
Pacific/Middle East/Africa													
Australia	(A$)	1.3222	+0.0015	219 - 228	1.3268	1.3219	1.3229	-2.0	1.3275	-2.1	1.353	-2.4	89.0
Hong Kong	(HK$)	7.7335	-0.0042	330 - 340	7.7340	7.7330	7.7389	-0.2	7.7399	-0.1	7.7447	-0.1	-
India	(Rs)	31.3700	-0.005	675 - 725	31.3725	31.3670	31.455	-3.1	31.7	-4.1	-	-	-
Israel	(Shk)	3.0108	+0.0076	077 - 135	3.0519	2.9990	-	-	-	-	-	-	-
Japan	(Y)	99.4600	+0.51	100 - 100	99.6300	99.3000	98.86	3.5	97.98	4.1	94.556	4.4	148.7
Malaysia	(M$)	2.5537	-0.0038	532 - 542	2.5570	2.5520	2.5555	0.9	2.551	1.0	2.535	0.9	-
New Zealand	(NZ$)	1.5662	+0.0025	654 - 672	1.5720	1.5654	1.5672	-2.7	1.5732	-2.4	1.5962	-2.2	-
Philippines	(Peso)	24.5500	-	000 - 000	24.6000	24.5000	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7504	-	502 - 506	3.7507	3.7502	3.753	-0.8	3.7563	-0.6	3.7679	-0.5	-
Singapore	(S$)	1.4528	-0.0007	523 - 533	1.4540	1.4523	1.4486	4.1	1.4432	2.8	1.4198	2.3	-
S Africa (Com.)	(R)	3.5473	+0.014	465 - 480	3.5485	3.5300	3.5483	-5.1	3.5793	-5.2	3.7353	-5.7	-
S Africa (Fin.)	(R)	4.0570	-0.053	470 - 670	4.0900	4.0450	4.1375	-8.0	4.1875	-7.5	4.42	-7.5	-
South Korea	(Won)	789.400	-	300 - 500	-	-	792.4	-4.6	795.9	-3.3	814.4	-3.2	-
Taiwan	(T$)	26.2885	-	850 - 940	-	-	26.3095	-0.9	26.3495	-0.9	-	-	-
Thailand	(Bt)	25.0855	+0.0355	840 - 070	25.1070	25.0640	25.0625	-0.6	25.0765	-0.4	25.1025	-0.2	-

†SDR rate for Jan 31. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jan 31. Base average 1990=100

WORLD INTEREST RATES

MONEY RATES

February 1	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	4⅞	5¼	5⅝	5 15/16	6⅝	7.40	4.50	-
week ago	4⅞	5¼	5⅝	5 15/16	6⅝	7.40	4.50	-
France	5⅝	5⅝	5 13/16	6¼	6 11/16	5.00	-	5.40
week ago	5⅝	5⅝	5¾	6⅛	6⅝	5.00	-	5.40
Germany	4.88	4.95	5.05	5.25	5.70	6.00	4.50	4.85
week ago	4.90	4.95	5.05	5.30	5.75	6.00	4.50	4.85
Ireland	5¼	5⅝	6⅛	6 13/16	7⅜	-	-	6.25
week ago	5¼	5⅝	6¼	6 13/16	7⅜	-	-	6.25
Italy	8⅜	8½	8 13/16	9⅜	10⅛	-	7.50	8.20
week ago	8½	8½	8⅞	9⅜	10⅛	-	7.50	8.20
Netherlands	4.84	5.03	5.12	5.33	5.82	-	5.25	-
week ago	4.84	5.03	5.12	5.35	5.86	-	5.25	-
Switzerland	3⅞	3¾	4	4⅛	4⅝	6.625	3.50	-
week ago	3⅞	3¾	4	4⅛	4⅝	6.625	3.50	-
US	5 13/16	6⅛	6⅜	6⅝	7⅛	-	5.25	-
week ago	5⅝	6⅛	6¼	6 11/16	7¼	-	4.75	-
Japan	2¼	2¼	2¼	2⅛	2⅛	-	1.75	-
week ago	2⅛	2¼	2⅛	2⅜	2¼	-	1.75	-
■ $ LIBOR FT London								
Interbank Fixing	-	6⅛	6½	6 15/16	7¼	-	-	-
week ago	-	6⅛	6⅜	6 13/16	7½	-	-	-
US Dollar CDs	-	5.90	6.08	6.38	6.97	-	-	-
week ago	-	5.90	6.17	6.57	7.26	-	-	-
SDR Linked Ds	-	4.625	4.812	5.125	5.687	-	-	-
week ago	-	4.625	4.94	5.25	5.69	-	-	-

ECU Linked Ds mid rates: 1 mth: 5⅝; 3 mths: 6 ; 6 mths: 6⅜; 1 year 6 13/16. $ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US $ CDs and SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Feb 1	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	4 15/16 - 4 13/16	5 - 4⅞	5⅜ - 5¼	6 1/16 - 5 15/16	5 15/16 - 5 13/16	6⅜ - 6¼
Danish Krone	5¼ - 5	5⅝ - 5½	5⅞ - 5⅝	6¼ - 6	6⅝ - 6⅜	7 7/16 - 7 3/16
D-Mark	5 - 4⅞	5 - 4⅞	5 - 4⅞	5 1/16 - 4 15/16	5 7/16 - 5 5/16	5 15/16 - 5 13/16
Dutch Guilder	5⅛ - 4 15/16	5 1/16 - 4 15/16	5⅛ - 5	5 5/16 - 5 3/16	5⅝ - 5½	5 15/16 - 5 13/16
French Franc	5 7/16 - 5 5/16	5 7/16 - 5 5/16	5½ - 5⅜	5 13/16 - 5 11/16	6 3/16 - 6 1/16	6¾ - 6⅝
Portuguese Esc.	8⅞ - 8¼	9 - 8 13/16	9⅜ - 9⅛	10⅜ - 10⅛	10⅝ - 10⅜	11⅛ - 10⅞
Spanish Peseta	7 15/16 - 7 13/16	8 5/16 - 8 3/16	8 7/16 - 8¼	8¾ - 8⅝	9¼ - 9⅛	10 1/16 - 9 15/16
Sterling	6¼ - 6	6⅜ - 6⅛	6 11/16 - 6 9/16	6 13/16 - 6 11/16	7⅛ - 7	7¾ - 7⅝
Swiss Franc	3 9/16 - 3 7/16	3 9/16 - 3 7/16	3¾ - 3⅝	4 - 3⅞	4¼ - 4⅛	4 9/16 - 4 7/16
Can. Dollar	7 7/16 - 7 3/16	7⅝ - 7½	7 13/16 - 7 11/16	8 - 7⅞	8⅜ - 8⅛	8 9/16 - 8 7/16
US Dollar	6 - 5⅞	6 - 5⅞	6⅛ - 6	6 5/16 - 6 3/16	6⅝ - 6½	7⅛ - 7⅛
Italian Lira	9 - 7½	8½ - 8⅛	8⅝ - 8½	8 13/16 - 8 11/16	9 5/16 - 9 3/16	10 5/16 - 10 3/16
Yen	2¼ - 2 1/16	2¼ - 2 1/16	2 5/16 - 2¼	2 5/16 - 2¼	2 5/16 - 2¼	2 13/16 - 2 11/16
Asian $Sing	3⅞ - 3⅝	4⅛ - 4¼	3⅝ - 3½	4 7/16 - 4 5/16	4 9/16 - 4 7/16	4¾ - 4⅝

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ **THREE MONTH PIBOR FUTURES** (MATIF) Paris interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	93.85	93.87	+0.06	93.89	93.84	15,508	44,163
Jun	93.39	93.44	+0.09	93.46	93.39	10,056	42,958
Sep	93.08	93.11	+0.06	93.13	93.08	3,987	34,556
Dec	92.81	92.80	+0.04	92.83	92.79	1,953	19,543

■ **THREE MONTH EURODOLLAR** (LIFFE)* $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar		93.46	-			0	1437
Jun		92.88	-			0	595
Sep		92.55	-			0	177
Dec		92.28	-			0	200

■ **THREE MONTH EUROMARK FUTURES** (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	94.79	94.78	-0.01	94.81	94.78	27007	194388
Jun	94.43	94.43	+0.01	94.45	94.40	39277	173458
Sep	94.03	94.03	-	94.06	94.02	10609	100061
Dec	93.64	93.64	-	93.67	93.62	11923	72719

■ **THREE MONTH EUROLIRA INT.RATE FUTURES** (LIFFE) L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	90.63	90.64	+0.06	90.68	90.53	9841	38150
Jun	90.04	90.03	+0.05	90.07	89.96	4010	26157
Sep	89.65	89.62	+0.04	89.69	89.58	1754	26157
Dec	89.33	89.31	+0.04	89.36	89.29	1013	15809

■ **THREE MONTH EURO SWISS FRANC FUTURES** (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	95.87	95.87	-	95.89	95.85	2382	18801
Jun	95.57	95.55	-0.01	95.60	95.54	1957	14857
Sep	95.33	95.26	-0.03	95.35	95.26	710	8295
Dec	95.06	95.01	-0.03	95.08	95.01	883	4786

■ **THREE MONTH ECU FUTURES** (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	93.56	93.60	+0.07	93.60	93.55	1240	9683
Jun	93.07	93.09	+0.06	93.11	93.06	519	8296
Sep	92.66	92.70	+0.07	92.71	92.66	401	3630
Dec	92.29	92.29	+0.07	92.31	92.27	338	1880

* LIFFE futures also traded on APT

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Feb 1		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	19.15	16.83	4.858	2.042	5132	5.443	21.28	502.1	421.4	23.78	4.103	2.017	4.495	3.191	317.3	2.570
Denmark	(DKr)	52.21	10	8.789	2.536	1.066	2680	2.842	11.10	262.2	220.0	12.42	2.142	1.053	2.347	1.666	165.7	1.342
France	(FFr)	59.41	11.38	10	2.886	1.213	3049	3.233	12.63	298.3	250.4	14.13	2.438	1.198	2.670	1.896	188.5	1.527
Germany	(DM)	20.59	3.943	3.465	1	0.420	1056	1.120	4.377	103.4	86.75	4.896	0.845	0.415	0.925	0.657	65.32	0.529
Ireland	(I£)	48.98	9.381	8.245	2.379	1	2514	2.666	10.42	245.9	206.4	11.65	2.010	0.988	2.202	1.563	155.4	1.259
Italy	(L)	1.949	0.373	0.328	0.095	0.040	100.	0.106	0.414	9.784	8.211	0.463	0.080	0.039	0.088	0.062	6.183	0.050
Netherlands	(Fl)	18.37	3.519	3.093	0.893	0.375	942.9	1	3.907	92.25	77.43	4.370	0.754	0.371	0.826	0.586	58.30	0.472
Norway	(NKr)	47.03	9.008	7.917	2.285	0.960	2414	2.560	10	236.1	198.2	11.19	1.930	0.949	2.114	1.501	149.2	1.209
Portugal	(Es)	19.92	3.814	3.352	0.967	0.407	1022	1.084	4.235	100.	83.93	4.737	0.817	0.402	0.895	0.636	63.20	0.512
Spain	(Pta)	23.73	4.545	3.994	1.153	0.484	1218	1.292	5.045	119.1	100.	5.644	0.974	0.479	1.067	0.757	75.30	0.610
Sweden	(SKr)	42.04	8.053	7.077	2.042	0.858	2158	2.288	8.940	211.1	177.2	10	1.725	0.848	1.890	1.342	133.4	1.081
Switzerland	(SFr)	24.37	4.668	4.102	1.184	0.498	1251	1.326	5.182	122.4	102.7	5.796	1	0.492	1.095	0.778	77.34	0.626
UK	(£)	49.57	9.494	8.344	2.408	1.012	2544	2.698	10.54	248.9	208.9	11.79	2.034	1	2.228	1.582	157.3	1.274
Canada	(C$)	22.25	4.261	3.745	1.081	0.454	1142	1.211	4.731	111.7	93.76	5.292	0.913	0.449	1	0.710	70.60	0.572
US	($)	31.33	6.001	5.274	1.522	0.640	1608	1.705	6.662	157.3	132.0	7.453	1.286	0.632	1.408	1	99.43	0.805
Japan	(Y)	31.51	6.036	5.305	1.531	0.643	1617	1.715	6.701	158.2	132.8	7.495	1.293	0.636	1.416	1.006	100.	0.810
Ecu		38.91	7.452	6.549	1.890	0.794	1997	2.118	8.273	195.4	164.0	9.254	1.597	0.785	1.749	1.242	123.5	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lire and Peseta per 100.

■ **D-MARK FUTURES** (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.6585	0.6571	+0.0006	0.6584	0.6565	48,053	80,356
Jun	0.6600	0.6592	+0.0003	0.6603	0.6588	1,648	3,109
Sep	0.6615	0.6615	+0.0002	0.6615	0.6615	4	214

■ **JAPANESE YEN FUTURES** (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	1.0076	1.0095	+0.0020	1.0115	1.0075	38,184	76,770
Jun	1.0200	1.0208	+0.0018	1.0215	1.0200	1,632	7,551
Sep	1.0332	1.0332	+0.0021	1.0332	1.0332	113	868

■ **SWISS FRANC FUTURES** (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.7791	0.7784	-0.0014	0.7812	0.7782	29,206	38,493
Jun	0.7832	0.7832	-	0.7855	0.7832	290	1,388
Sep	-	0.7895	-	-	0.7895	1	74

■ **STERLING FUTURES** (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	1.5792	1.5800	+0.0004	1.5820	1.5788	20,806	41,374
Jun	1.5770	1.5800	-	1.5810	1.5770	111	1,376
Sep	-	1.5790	-	1.5790	1.5750	2	6

UK INTEREST RATES

LONDON MONEY RATES

Feb 1	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	5 - 3¾	5¾ - 5½	5½ - 5⅜	6 13/16 - 6 11/16	7⅛ - 7	7¾ - 7⅝
Sterling CDs	-	-	6 7/16 - 6⅜	6 11/16 - 6 9/16	7⅛ - 7	7 11/16 - 7⅝
Treasury Bills	-	-	6⅜ - 6¼	6⅝ - 6½	-	-
Bank Bills	-	-	6 7/16 - 6⅜	6 11/16 - 6 9/16	7 - 6⅞	-
Local authority deps.	4 13/16 - 4 11/16	5 9/16 - 5 7/16	6 9/16 - 6 7/16	6¾ - 6⅝	7 1/16 - 6 15/16	7 13/16 - 7 11/16
Discount Market deps	4½ - 4	5 11/16 - 5 9/16	-	-	-	-

UK clearing bank base lending rate 6¼ per cent from December 7, 1994

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2	2½	5¼	5½	5¼

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc. Make up day Jan 31, Ave. tender rate of discount 6.1071pc. ECGD fixed rate Stlg. Export Finance. Make up day Jan 31, 1995. Agreed rate for period Feb 26, 1995 to Mar 25, 1995, Schemes II & III 7.87pc. Reference rate for period Dec 31, 1994 to Jan 31, 1995, Schemes IV & V 6.624pc. Finance House Base Rate 7pc from Feb 1, 1995

■ **THREE MONTH STERLING FUTURES** (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	92.94	92.92	-0.01	92.96	92.91	13992	79893
Jun	92.34	92.31	-	92.35	92.30	15113	89658
Sep	91.92	91.89	-	91.96	91.88	8756	64977
Dec	91.64	91.58	-	91.64	91.57	8110	48954

Also traded on APT. All Open interest figs. are for previous day.

■ **SHORT STERLING OPTIONS** (LIFFE) £500,000 points of 100%

Strike Price	CALLS Mar	Jun	Sep	PUTS Mar	Jun	Sep
9275	0.24	0.10	0.11	0.07	0.54	0.97
9300	0.09	0.05	0.07	0.17	0.74	1.18
9325	0.02	0.02	0.04	0.35	0.96	1.40

Est. vol. total, Calls 11054 Puts 4996. Previous day's open int., Calls 136082 Puts 133235

EMS EUROPEAN CURRENCY UNIT RATES

Feb 1	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Netherlands	2.19672	2.12618	+0.00044	-3.12	10.29	-
Belgium	40.2123	39.1092	-0.023	-2.74	9.86	20
Germany	1.94964	1.89867	+0.00061	-2.61	9.72	-
Austria	13.7167	13.3586	+0.00050	-2.68	9.71	-
Ireland	0.808628	0.797427	-0.002961	-1.39	8.35	9
Denmark	7.43679	7.48766	-0.00664	0.68	8.12	-5
France	6.53883	6.58344	+0.00207	0.68	8.12	-6
Portugal	192.854	196.265	+0.029	1.77	4.99	-12
Spain	154.250	164.813	-0.298	6.85	0.00	-48
NON ERM MEMBERS						
Greece	264.513	296.009	+0.004	11.91	-4.52	-
Italy	1793.19	2005.80	+0.67	11.86	-4.48	-
UK	0.786749	0.788136	-0.000799	0.18	6.66	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ **PHILADELPHIA SE £/$ OPTIONS** £31,250 (cents per pound)

Strike Price	CALLS Feb	Mar	Apr	PUTS Feb	Mar	Apr
1.500	7.87	7.84	7.95	-	0.01	0.24
1.525	5.43	5.58	5.88	-	0.16	0.59
1.550	3.00	3.48	4.03	0.02	0.58	1.18
1.575	1.04	1.88	2.53	0.50	1.40	2.14
1.600	0.15	0.84	1.51	2.11	2.80	3.47
1.625	-	0.30	0.81	4.38	4.74	5.23

Previous day's vol., Calls 4,306 Puts 5,419 . Prev. day's open int., Calls 223,533 Puts 284,170

■ **THREE MONTH EURODOLLAR** (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	93.47	93.47	+0.02	93.48	93.45	119,181	406,951
Jun	92.85	92.90	+0.05	92.90	92.86	239,990	397,921
Sep	92.54	92.58	-	92.57	92.54	98,665	268,851

■ **US TREASURY BILL FUTURES** (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	94.06	94.05	-	94.07	94.05	2,364	9,326
Jun	93.44	93.45	+0.03	93.46	93.43	889	9,169
Sep	93.15	93.12	+0.01	93.15	93.12	408	3,763

All Open interest figs. are for previous day

■ **EUROMARK OPTIONS** (LIFFE) DM1m points of 100%

[illegible]

■ **EURO SWISS FRANC OPTIONS** (LIFFE) SFr 1m points of 100%

[illegible]

BASE LENDING RATES

	%		%		%
Adam & Company	6.25	Duncan Lawrie	6.25	* Roxburghe Guarantee Corporation Limited is no longer authorised as a banking institution.	9
Allied Trust Bank	6.25	Exeter Bank Limited	7.25	Royal Bk of Scotland	6.25
AIB Bank	6.25	Financial & Gen Bank	7.00	Singer & Friedlander	6.25
●Henry Ansbacher	6.25	●Robert Fleming & Co	6.25	●Smith & Williamson Secs.	6.25
Bank of Baroda	6.25	Girobank	6.25	[illegible]	
Banco Bilbao Vizcaya	6.25	●Guinness Mahon	6.25	[illegible]	
Bank of Cyprus	6.25	Habib Bank AG Zurich	6.25	[illegible]	

[illegible]

● Members of London Investment Banking Association
* In administration

CONTRACTS & TENDERS

LONDON SHARE SERVICE

BANKS, MERCHANT

BANKS, RETAIL

BREWERIES

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

BUILDING MATS. & MERCHANTS - Cont.

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

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LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

INVESTMENT COMPANIES - Cont.

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

OIL EXPLORATION & PRODUCTION

OIL EXPLORATION & PRODUCTION - Cont.

OIL, INTEGRATED

OTHER FINANCIAL

OTHER SERVICES & BUSINESSES

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SPIRITS, WINES & CIDERS

SUPPORT SERVICES

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

TRANSPORT - Cont.

WATER

AMERICANS

CANADIANS

Royal Bk Can.	12⅝xd	+⅛	15⅝	11⅝	3,872	4.2
TVX Gold ♥	375½p	+2½	490½p	338½p	594.8	-
Toronto-Dom	9⅛	+⅛	11⅛	8⅜	2,821	4.2
Trans Can Pipe ♥	7⅜	+⅛	10⅞	7⅜	1,422	4.8

SOUTH AFRICANS

	Notes	Price	+ or -	1994/95 high	low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		£28	----	£34	£13½	1,882	2.5	21.2
Barlow	♣	£5½	+⅛	£5⅛	£3⅛	1,049	1.9	18.7
Gold Flds Prop R		141xd	----	152	75	14.4	7.6	ф
NK Props.		85	----	98	85	3.42	14.1	-
SASOL	♥	488	-23	582	280	2,688	3.0	-
SA Brews	†	£13⅛	-⅛	£18⅛	£10	3,833	2.1	21.6
Tiger Oats		700	----	898	538	1,053	2.2	16.5
Tongaat-Hulett	†s	701	----	*725	356¼	638.0	2.0	20.5

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel Financial, a member of the Financial Times Group

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- ☐ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ф Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies based on an approved exchange.
- ♣ Free annual/interim report available, see details below
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- ‡ Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♦ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Cents
f Flat yield.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v Not subject to ACT
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1995
K Yield based on prospectus or other official estimates for 1994
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96
N Figures based on EMR 'Headline Earnings'
P Figures based on prospectus or other official estimates for 1994
R Forecast annualised yield, p/e based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xd ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1275 a year for each security shown, subject to the Editor's discretion

FT Free Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣. Please quote the code FT1089. Ring 081-770 0770 (open 24 hours including weekends) or Fax 081-770 3822. If calling from outside the UK, ring +44 81 770 0770 or fax +44 81 770 3822. Reports will be sent the next working day, subject to availability.

FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details.

An International service is available for callers outside the UK, annual subscription £250 stg. Call 071-873 4378 (+44 71 873 4378, International) for more information on FT Cityline.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 71) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Money Funds

Jupiter Tyndall (Bermuda) Ltd

Orion Fund Limited

GUERNSEY (SIB RECOGNISED)

AIB Investment Managers (Guernsey) Ltd

Lazard Fund Mngrs - Contd.

Lloyds Intl Money Market Fund Ltd

M & G (Guernsey) Ltd

Royal Bk of Canada G/S Fd Mgrs Ltd

Merrill Lynch Guernsey

IRELAND (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

ANZ Mngmt Co (Guernsey) Ltd

Apollo Investment Management Ltd

Lazard Fund Mngrs (Channel Islands) Ltd

Lloyds Bank Fund Managers (Guernsey) Ltd

Swiss Life Investment Fund – Proteus (a)

IRELAND (REGULATED)(**)

AIB Fund Management Ltd

Bank of Ireland Asset Management

Berkshire Korea Fund Plc

Dynamic Pacific Portfolio Fund Plc

Yield Korea Fund

ISLE OF MAN (SIB RECOGNISED)

AXA Equity & Law Intl Fund Mngrs

Ashburton Global Funds Ltd

ISLE OF MAN (REGULATED)(**)

AXA Equity & Law Intl Fund Mgrs

JERSEY (SIB RECOGNISED)

AIB Fund Managers (CI) Ltd

JERSEY (REGULATED)(**)

Barclays Intl Funds

Coutts & Co (Jersey) Fund Managers Ltd

LUXEMBOURG (SIB RECOGNISED)

Commercial Union Luxembourg SA – Contd.

Midland Intl Circuit Fund SICAV(a)

LUXEMBOURG (REGULATED)(**)

Aetos International Umbrella Fund (a)

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OFFSHORE INSURANCES

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OFFSHORE INSURANCES

OTHER OFFSHORE FUNDS

LONDON STOCK EXCHANGE

MARKET REPORT

Shares close strongly in an optimistic market

By Terry Byland,
UK Stock Market Editor

The London market closed firmly yesterday, still awaiting news on interest rate policies from the meeting of the US Federal Reserve's Open Market Committee. Wall Street was 10 Dow points up as the UK market ended trading for the day, and the FT-SE 100-share Index showed a final gain of 25.7 at 3,017.3.

Setting aside the uncertainty surrounding the FOMC meeting, the UK stock market looked confident, showing a gain of 32 points at the day's best. After opening firmly behind the generally good reception from world markets for President Clinton's new support plan for Mexico, UK equities received further encouragement from British government bonds.

Bonds welcomed news of a fall in the January manufacturing index of the UK Purchasing Managers Association, which seemed to indicate slower economic growth and thus reduced pressure for higher base rates. Today, the UK chancellor of the exchequer and the governor of the Bank of England hold their regular discussions on interest rate policy.

Corporate developments took a back seat in the early part of the trading session. Glaxo, with its trading statement now due, moved forward as investors looked for the next development in its £9bn plus bid for Wellcome, which also gained ground. Sandoz, the Swiss group, appeared to rule itself out as a possible white knight for Wellcome, strengthening the view that a new contender will prove hard to find.

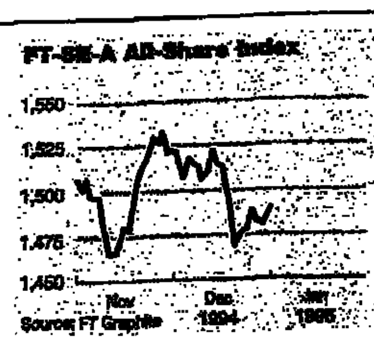
Utilities turned down, against the market trend, reacting sharply to reports that the electricity regulator would call for Trafalgar House to refloat 25 per cent of Northern Electric's equity, should its bid succeed, in order to maintain regulatory influence. Such a move would have implications across the utility sectors, which are regarded as bid targets, but turnover in these stocks was not heavy yesterday.

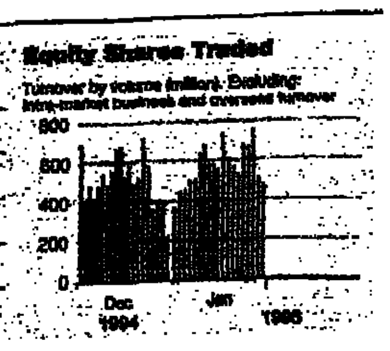
Bid speculation also returned to the merchant bank stocks, with investors not put off by recent bid denials. SG Warburg, regarded as in play since the collapse of its merger talks with Morgan Stanley, advanced, as did Kleinwort Benson, the merchant bank thought likely to attract interest.

But the highlight of the day came when Vodafone, the cellular phone group which is one of the market's favourite growth stocks, said profits will fall short of market expectations. Heavy trading in Vodafone saw the shares lose ground sharply before rallying.

Seaq trading volume, swollen by the late spurt in corporate activity, jumped to 616.4m shares from under 500m in the previous session. Tuesday's retail business was worth £1.15bn but recent trends in the marketplace suggest that good retail business overall has not spread across the full range of City firms. Turnover has been regularly swollen by large portfolio trades which tend to be handled by a select few of the larger houses.

Hints of further staff cutbacks among London-based securities firms have begun to circulate once more. Yesterday, Nomura, the Japanese securities house, made severe cutbacks among its UK stock market staff.





Indices and ratios

FT-SE 100	3017.3	+25.7
FT-SE Mid 250	3377.7	+7.3
FT-SE-A 350	1506.1	+10.7
FT-SE-A All-Share	1490.41	+9.85
FT-SE-A All-Share yield	4.10	(4.13)
FT Ordinary Index	2286.4	+25.7
FT-SE-A Non Fins p/e	17.52	(17.43)
FT-SE 100 Fut Mar	3022.0	+28.5
10 yr Gilt yield	8.61	(8.64)
Long gilt/equity yld ratio:	2.11	(2.11)

Best performing sectors

1. Media ..... +1.7
2. Pharmaceuticals ..... +1.6
3. Banks, Retail ..... +1.6
4. Banks, Merchant ..... +1.5
5. Spirits, Wines & Cider ..... +1.4

Worst performing sectors

1. Electricity ..... -1.2
2. Tobacco ..... -0.9
3. Other Services & Bans ..... -0.6
4. Utilities ..... -0.4
5. Telecommunications ..... -0.3

Heavy trade in Vodafone

A warning from Vodafone, the UK's leading cellular phones group, that full-year profits will be below analysts' expectations shocked the market and triggered an explosion of activity in the shares, which dropped more than 10 per cent at one point before rallying to finish a net 3 per cent down.

Turnover in the stock rocketed to an eventual 65m shares, the second-highest single day's activity on record and around 10 per cent of the total volume of the whole of the London market, as stunned marketmakers and fund managers struggled to gain more information about the underlying cause of the warning.

Vodafone ascribed the warning to higher commissions and subsidies for handsets, which analysts said was the price the company had to pay for its success in generating new customers. Vodafone accompanied the profits warning with news that new connections in January were around double those of January 1994.

One telecoms specialist said the market had panicked on the news: "The market was not braced for a trading update and overreacted until it became clear that the company is a victim of its own success in winning new customers."

He said the benefits of the new connections would feed through into the next year's profits. "Roughly speaking current year estimates will be downgraded by around 3 per cent but those for the following year upgraded by around 2 per cent," he added.

Only a week ago one UK institution sold a near 1 per cent stake in the company at an 8 per cent discount to the then market price. Yesterday the shares closed a net 5½ lower at 182½p, having fallen to 168p at one point.

Tomkins advances

News that diversified industrial Tomkins was taking a leaf out of Hanson's book and extending its ADR listing from Nasdaq to the New York Stock Exchange sent the shares up 7 to 229p.

Hopes for an upsurge in US shareholding ran high as analysts pored over the sector's price to cash flow ratios and concluded that Tomkins could well find favour when it goes on to the NYSE on February 21. Tomkins' North American shareholder base is around 3 per cent, against closer to 25 per cent for Hanson.

Wall Street investors delight in price to cash flow ratios, which are seen as difficult to manipulate and free of tax distortions. Tomkins' price/cash flow ratio is around 8, against 9 for BTR and 10 for Hanson. BTR closed 4 higher at 304p, while Hanson was 2 firmer at 231¾p in 12m shares traded after yesterday's annual meeting confirmed the group's commitment to continued expansion by acquisition.

Powell Duffryn, which derives nearly a fifth of profits from fuel, tumbled 18 to 485p following profits downgrades by Nomura Securities and BZW on the back of the unseasonally mild winter weather.

The takeover bid stories surrounding Costain, the construction group, refused to lie down, and saw the shares move up strongly throughout the session in heavy volume.

Speculation early in the day was that Hanson, the conglomerate, was about to launch a bid for the group ahead of the Hanson annual meeting.

Although nothing transpired, Costain shares remained well bid during the day, eventually closing a net 2½ higher at 22½p. Turnover of 18m shares was the second highest in the UK market.

The twin denials by Lloyds Bank and Lloyds Abbey Life of stories that the bank was about to buy out the 37 per cent minority in Lloyds Abbey prompted sharp reversals in both share prices.

Lloyds Abbey shares, which galloped ahead on Tuesday after the story circulated in the market, dropped back to close a net 7 off at 352p on good turnover of 2.6m shares, while Lloyds Bank rallied 6 to 545p on 2.6m traded.

Most of the action in the high street banks was concentrated in Barclays, which raced up 7½ to 586½p amid exceptionally heavy turnover of 11m. NatWest put on 8 at 493p on volume of 2.8m.

The two hot takeover favourites in the merchant banking area, S.G. Warburg and Kleinwort Benson, put on another strong performance, with the market's optimists still taking the view that either, or both, of the stocks would lose its independence sooner rather than later.

Dealers pointed out that turnover in Kleinwort Benson shares – 2.2m – was again above usual levels. Kleinwort shares raced ahead just before the close and settled 25 higher at 624p. Warburg also moved sharply better to end the day 16 up at 757p on turnover of 821,000. Mercury Asset Management dipped 8 to 779p.

Composite insurances rallied well after the recent weakness caused by worries about the Europe-wide floods. Analysts continued to point out that flood damage is generally not an insured peril in many regions of Germany, Belgium and Holland.

Commercial Union moved up 7 to 500p and General Accident 12½ to 513p. News that Sun Alliance is increasing its domestic mortgage indemnity provisioning for 1994 by £100m failed to dent an improving share price which closed 5 firmer at 298p.

Bid talk continued to surround wholesale cash and carry specialist Nurdin and Peacock, pushing the shares up 10 to 153p in 2.1m turnover for a two-day advance of more than 8 per cent. A quick short list of potential bid candidates include food distributor Booker, which rose 9 to 398p, and SHV, the Dutch group, which owns 14 per cent of Nurdin and runs the Macro wholesale distributor in the UK.

Some analysts thought any bid by Booker would provoke a monopolies commission intervention while others pointed to the need for an agreed deal given the 42 per cent of Nurdin held by the Peacock family.

Drinks shares moved ahead on a broad front, with Allied Domecq rising 12 to 522p in 6.1m turnover and Guinness adding 6 at 421p. Heavily committed to Latin America, Allied is understandably sensitive to peso sentiment. The improving outlook for the Scotch whisky cycle was said to lie behind the advance for Guinness.

Among brewers, the talk was dominated by speculation about an imminent deal involving the Courage group, which faces squeezed operating margins next month when a big supply agreement with the Chef and Brewer pubs chain runs out. Bass gained 9¼ to 525½p and Whitbread hardened to 564p. Scottish & Newcastle, most analysts' favourite to win any auction for Courage, shed 2 to 507p.

Strong passenger flows in January helped lift P&O 12 to 579p. Passenger traffic rose 7 per cent last month and with estimates of the company's total volume for 1994 pointing to growth in excess of 20 per cent some analysts have been nudging upwards earnings estimates for P&O's ferry operations.

British Airways firmed 3 to 369½p ahead of tomorrow's traffic numbers for January and Monday's third-quarter results. The latter are widely expected to show a profits gain of around 40 per cent.

MARKET REPORTERS:
Steve Thompson,
Jeffrey Brown.

FINANCIAL TIMES EQUITY INDICES

	Feb 1	Jan 31	Jan 30	Jan 27	Jan 26	Yr ago	*High	*Low
Ordinary Share	2286.4	2260.7	2263.3	2284.9	2271.9	2713.6	2713.6	2238.3
Ord. div. yield	4.57	4.63	4.63	4.58	4.60	3.43	4.66	3.43
Earn. yld. % full	6.70	6.76	6.76	6.72	6.75	3.89	6.84	3.82
P/E ratio net	17.67	17.45	17.46	17.22	17.14	32.46	33.43	16.91
P/E ratio nil	16.74	16.53	16.54	16.66	16.60	30.09	30.89	16.37

*For 1994/5. Ordinary Share Index since compilation: high 2713.6 2/02/94; low 49.4 26/6/40
FT Ordinary Share index base date 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2271.0	2278.3	2279.7	2283.5	2289.0	2289.1	2288.6	2288.3	2286.1	2290.3	2270.0

	Feb 1	Jan 31	Jan 30	Jan 27	Jan 26	Yr ago
SEAQ bargains	20,707	17,602	19,529	20,059	22,637	43,584
Equity turnover (£m)†	-	1153.3	1108.0	2284.1	2047.1	2095.5
Equity bargains†	-	24,000	27,404	27,839	31,583	48,737
Shares traded (ml)†	-	471.1	502.4	770.5	734.9	936.6

†Excluding intra-market business and overseas turnover.

London market data

Rises and falls*		1994/95 Highs and lows*		LIFFE Equity options	
Total Rises	888	Total Highs	23	Total contracts	32,726
Total Falls	360	Total Lows	106	Calls	12,573
Same	1,677			Puts	20,153

Feb 1 *Data based on those companies listed on the London Share Service.

FUTURES AND OPTIONS

FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	3000.0	3022.0	+28.5	3040.0	3000.0	11866	57112
Jun		3031.0	+28.0			0	5356
Sep		3055.5	+28.0			0	36

FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	3375.0	3378.5	+8.5	3385.0	3375.0	235	3944

FT-SE 100 INDEX OPTION (LIFFE) (*3016) £10 per full index point

[illegible]	[illegible]

EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]	[illegible]

* Underlying index value. Premiums shown are based on settlement prices.
† Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1994/95 High	1994/95 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
100	F.P.	4.99	99	90½	Asset Man Inv	99	-	-	-	-	-
-	F.P.	1.93	7	5½	Cala. Media Wts	5½	-	-	-	-	-
-	F.P.	64.0	173	133	Clydeport	155		RN3.51	-	2.8	-
$10	F.P.	34.2	625	565	First Russian Fr	570	-	-	-	-	-
-	F.P.	33.7	96	93	Gartmore Mic Ind	95	-	-	-	-	-
-	F.P.	2.91	41	38	Do. Warrants	41	+3	-	-	-	-
-	F.P.	27.3	55	51¾	Lazard Stra India	52½	+¼	-	-	-	-
-	F.P.	3.19	32½	29¾	Do Warrants	30½	-	-	-	-	-
35	F.P.	22.1	36	34	MCIT S Cap	34	-	-	-	-	-
35	P.P.	23.4	36	36	MCIT S Inc	36	-	-	-	-	-
§3	F.P.	5.55	3½	3	MICE Group	3½		bN0.1	3.2	3.7	10.4
100	F.P.	40.5	94	80	Matheson Lloyds	81	-	-	-	-	-
-	F.P.	19.0	130	95	Pentex Oil	95	-	-	-	-	-
182	F.P.	1,467.4	186	167	TeleWest	173	+1½	-	-	-	-
100	F.P.	17.4	102	100	Wellington Un.	101	-1	-	-	-	-
-	F.P.	262.1	128	118	Woodchester Units	125	-	-	-	-	-

FT GOLD MINES INDEX

	Jan 31	% chg on day	Jan 30	Jan 27	Year ago	Gross div yield %	52 week High	52 week Low
Gold Mines Index (34)	1637.91	-1.1	1658.81	1692.83	2164.82	2.33	2337.58	1658.81
Regional Indices								
Africa (18)	2447.95	+0.5	2435.82	2559.55	2841.26	5.61	3711.87	2304.45
Australasia (7)	1991.83	-2.8	2050.03	2131.57	2817.27	0.84	2985.58	2050.03
North America (11)	1346.18	-1.7	1370.85	1372.95	1854.14	0.84	1924.91	1370.85

Figures in brackets show number of companies. Basis US Dollars. Base Values: 1000.00 31/12/92. Predecessor Gold Mines Index: Feb 1 ; 186.0 ; day's change: +4.2 Year ago: 282.5 † Partial. Latest prices were unavailable for this edition.

FT - SE Actuaries Share Indices — The UK Series

	Feb 1	Day's chge%	Jan 31	Jan 30	Jan 27	Year ago	Div. yield%	Earn. yield%	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3017.3	+0.9	2991.6	2995.9	3022.2	3520.3	4.29	7.35	16.07	3.28	1158.22
FT-SE Mid 250	3377.7	+0.2	3370.4	3382.3	3398.2	4150.9	3.76	6.48	18.49	7.28	1275.28
FT-SE Mid 250 ex Inv Trusts	3388.3	+0.2	3383.0	3394.6	3411.3	4156.8	3.89	6.99	17.16	7.66	1277.62
FT-SE-A 350	1506.1	+0.7	1495.4	1498.3	1510.0	1778.3	4.16	7.15	16.56	2.00	1178.20
FT-SE-A 350 Higher Yield	1530.2	+0.5	1522.1	1523.9	1538.7	1788.2	5.22	7.66	15.61	2.74	984.23
FT-SE-A 350 Lower Yield	1481.5	+0.9	1468.4	1472.3	1481.1	1723.6	3.10	6.84	17.64	1.29	977.40
FT-SE SmallCap	1708.90	+0.1	1708.44	1710.59	1713.34	2082.14	3.40	6.57	19.06	2.84	1337.92
FT-SE SmallCap ex Inv Trusts	1689.31	.....	1688.65	1692.32	1695.41	2045.57	3.59	7.37	17.20	3.00	1327.20
FT-SE-A ALL-SHARE	1490.41	+0.7	1480.56	1483.45	1494.34	1764.11	4.10	7.10	16.73	2.02	1185.77

FT-SE Actuaries All-Share

	Feb 1	Day's chge%	Jan 31	Jan 30	Jan 27	Year ago	Div. yield%	Earn yield%	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(25)	2641.78	+0.2	2637.49	2646.41	2667.08	2679.02	3.58	5.13	24.65	0.00	1088.53
12 Extractive Industries(7)	3569.71	+0.2	3561.69	3586.35	3610.76	4107.55	3.40	5.45	22.68	0.00	965.04
15 Oil, Integrated(3)	2630.95	+0.1	2628.33	2638.25	2658.33	2584.78	3.70	5.71	21.81	0.00	1086.47
16 Oil Exploration & Prod(15)	1899.22	+0.6	1886.96	1886.09	1894.30	1994.50	2.57	‡	‡	0.00	1098.86
20 GEN INDUSTRIALS(273)	1781.27	+0.6	1770.57	1779.33	1790.84	2282.68	4.38	5.99	19.95	1.51	916.99
21 Building & Construction(38)	948.08	+0.3	945.10	947.28	944.82	1526.99	4.09	6.53	20.00	0.00	748.57
22 Building Matls & Merchs(31)	1691.97	+1.0	1675.52	1693.57	1689.52	2373.38	4.51	6.53	18.48	0.20	805.34
23 Chemicals(23)	2192.68	+0.3	2186.65	2212.70	2237.41	2512.33	4.31	4.96	25.01	0.50	979.92
24 Diversified Industrials(17)	1752.13	+0.9	1737.29	1740.41	1757.55	2231.57	5.32	6.49	17.77	3.06	908.79
25 Electronic & Elect Equip(36)	1823.24	+0.4	1816.00	1815.78	1822.11	2241.87	4.16	7.07	16.84	1.74	901.77
26 Engineering(72)	1712.51	+0.5	1704.29	1708.95	1721.00	2011.17	3.53	5.72	20.53	2.35	988.48
27 Engineering, Vehicles(13)	2031.32	+0.7	2017.93	2029.13	2048.48	2516.71	4.92	1.70	80.00†	0.18	994.45
28 Paper, Pckg & Printing(28)	2705.91	+0.6	2690.56	2712.86	2740.16	2940.24	3.25	5.98	19.37	0.00	1071.25
29 Textiles & Apparel(21)	1454.71	-0.1	1455.83	1460.88	1469.71	2018.13	4.66	6.74	19.27	0.17	832.97
30 CONSUMER GOODS(95)	2812.09	+1.0	2785.38	2775.69	2795.18	3037.87	4.29	7.22	16.10	7.20	979.80
31 Breweries(16)	2205.85	+0.6	2191.90	2194.16	2210.17	2391.04	4.34	8.16	14.79	10.38	1009.84
32 Spirits, Wines & Ciders(10)	2546.06	+1.4	2510.59	2511.58	2545.38	3215.56	4.48	7.47	16.46	26.30	869.33
33 Food Producers(24)	2321.45	+0.6	2307.00	2310.64	2309.74	2569.86	4.22	7.59	15.64	3.92	989.36
34 Household Goods(10)	2485.47	+0.6	2469.88	2462.59	2463.54	2872.12	3.58	6.65	18.10	0.45	900.58
36 Health Care(18)	1581.30	+0.3	1576.64	1574.13	1576.90	1904.69	3.16	3.49	39.80	0.58	923.80
37 Pharmaceuticals(13)	3401.76	+1.6	3347.00	3318.32	3345.03	3193.53	3.96	6.30	18.34	0.00	1091.24
38 Tobacco(2)	3707.00	-0.9	3739.37	3717.37	3753.15	4366.52	5.80	9.83	11.11	0.00	845.60
40 SERVICES(231)	1845.36	+0.9	1828.75	1836.50	1845.17	2183.70	3.40	7.33	16.48	2.64	915.89
41 Distributors(32)	2283.70	+0.4	2274.66	2286.68	2291.81	3319.33	4.09	13.61	8.89	1.53	798.50
42 Leisure & Hotels(29)	2068.82	+1.3	2041.69	2036.35	2053.51	2349.83	3.48	5.82	20.56	7.16	1029.40
43 Media(43)	2730.31	+1.7	2684.68	2684.10	2706.92	3298.42	2.58	5.74	20.42	1.92	951.34
44 Retailers, Food(16)	1785.44	-0.2	1788.23	1813.27	1828.00	1666.61	3.69	8.98	13.64	2.32	1076.92
45 Retailers, General(45)	1521.20	+0.8	1508.62	1510.40	1506.52	1846.97	3.62	7.66	16.19	1.97	828.99
48 Support Services(38)	1460.66	+0.8	1449.24	1453.95	1459.06	1866.43	2.88	6.60	17.85	0.36	894.80
49 Transport(21)	2156.94	+1.1	2134.32	2161.04	2180.68	2797.79	3.94	6.61	17.30	3.32	859.23
51 Other Services & Business(7)	1196.58	-0.6	1203.51	1203.51	1206.24	1343.08	3.74	3.79	36.06	4.76	1042.27
60 UTILITIES(37)	2337.82	-0.4	2346.97	2349.54	2374.77	2762.33	4.58	7.97	15.29	6.06	920.81
62 Electricity(17)	2407.49	-1.2	2435.99	2437.91	2459.58	2819.12	4.05	10.60	11.36	17.55	1029.29
64 Gas Distribution(2)	2024.09	+0.8	2008.10	1999.74	2022.13	2359.26	5.92	‡	‡	0.00	950.69
66 Telecommunications(5)	1976.81	-0.3	1983.16	1988.97	2014.90	2450.42	4.13	7.57	16.16	0.00	857.94
68 Water(13)	1675.05	.....	1675.11	1677.76	1689.30	2109.36	5.96	14.33	7.61	4.62	854.12
69 NON-FINANCIALS(667)	1617.33	+0.5	1608.60	1611.71	1623.06	1870.36	4.07	6.85	17.52	2.59	1157.02
70 FINANCIALS(119)	2082.09	+1.3	2055.52	2058.45	2078.91	2736.34	4.68	9.64	12.03	0.35	881.45
71 Banks, Retail(9)	2717.71	+1.6	2675.63	2676.84	2713.65	3569.19	4.50	10.39	10.97	0.00	818.42
72 Banks, Merchant(6)	3095.18	+1.5	3048.94	3069.03	3092.83	3761.29	3.59	9.01	12.95	0.00	940.07
73 Insurance(27)	1160.58	+1.2	1137.21	1142.69	1160.47	1582.21	5.74	10.24	11.14	0.33	795.81
74 Life Assurance(6)	2276.18	+0.8	2258.25	2255.26	2282.25	2898.32	5.82	8.18	14.90	0.00	880.91
77 Other Financial(23)	1845.06	+0.1	1843.71	1848.46	1850.52	2241.52	4.04	8.05	14.70	2.11	997.88
79 Property(46)	1367.06	+1.1	1352.68	1354.61	1355.27	1878.97	4.40	7.79	16.09	0.67	793.60
80 INVESTMENT TRUSTS(133)	2570.06	+0.7	2551.31	2562.99	2570.12	3184.31	2.43	2.06	48.14	2.65	869.22
89 FT-SE-A ALL-SHARE(919)	1490.41	+0.7	1480.56	1483.45	1494.34	1764.11	4.10	7.10	16.73	2.02	1185.77
FT-SE-A Fledgling	985.55	.....	985.22	987.36	987.63	-	2.91	-	-	1.78	987.32
FT-SE-A Fledgling ex Inv Trusts	988.88	.....	988.98	990.97	991.25	-	3.06	-	-	1.88	990.73

Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	3001.8	3006.9	3007.2	3013.9	3021.4	3021.3	3021.9	3017.5	3016.0	3024.0	3001.8
FT-SE Mid 250	3367.1	3370.0	3372.5	3373.9	3377.8	3378.8	3379.1	3377.8	3376.9	3379.3	3367.1
FT-SE-A 350	1499.0	1501.3	1501.6	1504.4	1507.7	1507.7	1508.0	1506.2	1505.5	1508.6	1499.0

Time of FT-SE 100 Day's high: 12.07pm Day's low: 8.30am. FT-SE 100 1994 High: 3520.3(2/2/94) Low: 2876.6(24/6/94).

FT-SE Actuaries 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	888.0	888.0	888.0	888.0	888.3	888.7	888.0	888.0	888.5	888.5	887.8	+0.7
Pharmaceuticls	3353.0	3357.4	3356.8	3362.8	3368.6	3369.1	3371.4	3377.0	3370.3	3373.3	3318.3	+55.0
Water	1659.7	1662.0	1657.3	1657.1	1668.3	1668.4	1669.3	1669.3	1668.9	1668.9	1669.0	-0.1
Banks, Retail	2725.9	2731.8	2730.0	2741.1	2751.3	2748.8	2749.5	2749.9	2748.7	2752.4	2709.8	+42.6

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues. Lists of constituents are available from The Financial Times Limited, One Southwark Bridge, London SE1 9HL. The FT-SE Actuaries Share Indices Service, which covers a range of electronic and paper-based products relating to these indices, is available from FINSTAT, Fitzroy House, 13-17 Epworth Street, London EC2A 4DL.
The FT "500" has been renamed FT-SE-A Non-Financials Index. The FT-SE 100, the FT-SE Mid 250, FT-SE Actuaries 350 and the FT-SE Actuaries Industry baskets are calculated by the International Stock Exchange of the United Kingdom and Republic of Ireland and the FT-SE Actuaries All-Share Index is compiled by The Financial Times Limited, both in conjunction with the Institute of Actuaries and the Faculty of Actuaries under a standard set of ground rules. "FT-SE" and "Footsie" are joint trade marks and service marks of the London Stock Exchange and The Financial Times Limited. The FT-SE Actuaries Share Indices are audited by The WM Company. † Sector P/E ratios greater than 80 are not shown. ‡ Values are negative.

TRADING VOLUME

Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
[illegible]	[illegible]	[illegible]	[illegible]

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FT-SE 100 Index constituent. All trades are rounded.

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Feb 1 / Sch)

BELGIUM/LUXEMBOURG (Feb 1 / Frs.)

CZECH REP (Feb 1 / Korun)

DENMARK (Feb 1 / Kr)

FINLAND (Feb 1 / Mkt)

FRANCE (Feb 1 / Frs.)

GERMANY (Feb 1 / Dm.)

GREECE (Feb 1 / Drachmae)

ITALY (Feb 1 / Lire)

NETHERLANDS (Feb 1 / Fls.)

NORWAY (Feb 1 / Kroner)

POLAND (Jan 31 / Zloty)

PORTUGAL (Feb 1 / Escudo)

SPAIN (Feb 1 / Pta.)

SWEDEN (Feb 1 / Kroner)

SWITZERLAND (Feb 1 / Frs.)

TURKEY (Feb 1 / Tk Lira)

PACIFIC

JAPAN (Feb 1 / Yen)

HONG KONG (Jan 30 / H.K.$)

INDONESIA (Feb 1 / Rupiah)

MALAYSIA (Jan 27 / MYR)

NEW ZEALAND (Feb 1 / NZ $)

SINGAPORE (Jan 30 / S$)

AUSTRALIA (Feb 1 / Aust$)

SOUTH KOREA (Jan 28 / Won)

TAIWAN (Jan 26 / TW $)

THAILAND (Feb 1 / Baht)

AFRICA

SOUTH AFRICA (Feb 1 / Rand)

NORTH AMERICA

CANADA

TORONTO (Feb 1 / Can $) 4 pm close

MONTREAL (Feb 1 / Can $) 4 pm close

INDICES

	Feb 1	Jan 31	Jan 30	1994/5 High		Low	
Argentina							
General (29/12/77)	(u)	15016.51	14245.00	25479.40	18/2/94	13938.48	10/1/95
Australia							
All Ordinaries(1/1/80)	1833.1	1830.6	1858.7	2340.60	3/2/94	1830.60	31/1/95
All Mining(1/1/80)	825.1	838.2	864.3	1136.10	3/2/94	828.10	1/2/95
Austria							
Credit Aktien(30/12/84)	369.46	371.23	369.72	468.86	2/2/94	368.08	23/1/95
Traded Index(2/1/91)	991.57	993.27	991.57	1222.25	1/2/94	978.98	23/1/95
Belgium							
BEL20 (1/1/91)	1358.09	1353.09	1358.33	1542.65	9/2/94	1336.39	7/10/94
Brazil							
Bovespa (29/12/83)	(u)	38850.0	35807.0	56110.00	13/9/94	3860.90	3/1/94
Canada							
Metals Minls♦(1975)	(u)	3908.44	3888.45	4326.07	19/1/95	3299.68	20/4/94
Composite♦ (1975)	(u)	4017.48	3991.30	4609.89	23/3/94	3959.86	24/6/94
Portfolio$$ (4/1/83)	(u)	1961.38	1953.36	2182.89	1/2/94	1886.48	28/6/94
Chile							
IPSA Gen (31/12/80)	(u)	5410.6	5344.1	5754.40	21/11/94	3801.20	4/4/94
Denmark							
CopenhagenSE(3/1/83)	353.31	349.95	348.27	415.79	2/2/94	335.85	20/12/94
Finland							
HEX General(28/12/90)	1827.5	1809.7	1826.5	1872.60	4/2/94	1601.30	3/1/94
France							
SBF 250 (31/12/90)	1207.05	1191.14	1200.07	1585.20	2/2/94	1178.82	23/1/95
CAC 40(31/12/87)	1827.78	1797.80	1813.43	2355.93	2/2/94	1772.84	23/1/95
Germany							
FAZ Aktien(31/12/58)	765.54	758.53	761.17	859.27	18/5/94	742.84	5/10/94
Commerzbank(1/12/53)	2174.0	2147.80	2161.10	2485.58	2/5/94	2118.30	5/10/94
DAX (30/12/87)‡	2048.43	2021.27	2035.03	2271.11	16/5/94	1980.59	7/10/94
Greece							
Athens SE(31/12/80)	808.08	803.92	807.15	1194.98	18/1/94	803.92	31/1/95
Hong Kong							
Hang Seng(31/7/64)	(c)	(c)	7342.65	12201.09	4/1/94	6967.93	23/1/95
India							
BSE Sens.(1979)	3589.68	3618.54	3575.79	4630.57	12/9/94	3411.04	24/1/95
Indonesia							
Jakarta Comp.(10/8/82)	434.65	433.83	437.26	612.89	5/1/94	432.96	25/1/95
Ireland							
ISEQ Overall(4/1/88)	1851.22	1845.82†	1848.69	2062.16	20/1/94	1684.14	1/7/94
Italy							
Banca Comm Ital (1972)	672.28	660.57	662.44	817.17	10/5/94	651.94	13/12/94
MIB General (2/1/95)	1062.0	1044.0	1047.0	1074.00	23/1/95	979.60	10/1/95
Japan							
Nikkei 225 (16/5/49)	18739.47	18649.82	18752.86	21552.81	13/6/94	17369.74	4/1/94
Nikkei 300 (1/10/82)	268.85	268.81	268.54	311.71	13/6/94	264.88	23/1/95
Topix (4/1/68)	1464.14	1463.84	1468.46	1712.73	13/6/94	1380.66	23/1/95
2nd Section (4/1/68)	1908.38	1904.18	1926.20	2542.65	6/7/94	1873.33	4/1/94
Malaysia							
KLSE Comp.(4/4/86)	(c)	(c)	(c)	1314.46	5/1/94	849.87	24/1/95
Mexico							
IPC (Nov 1978)	(u)	1984.00	1898.90	2881.17	8/2/94	1898.90	31/1/95
Netherland							
CBS TtlRtnGen(End 83)	441.4	439.2	442.7	464.98	31/1/94	408.30	21/6/94
CBS All Shr (End 83)	278.9	275.6	277.7	294.89	31/1/94	257.90	21/6/94
New Zealand							
Cap. 40 (1/7/86)	1957.06	1939.82	1966.02	2438.64	3/2/94	1878.09	12/12/94
Norway							
Oslo SE(Ind)(2/1/83)	1142.97	1137.80	1119.79	1211.39	28/2/94	988.91	21/6/94
Philippines							
Manila Comp (2/1/85)	2476.89	2420.11	2418.64	3368.37	4/1/94	2374.88	24/1/95
Portugal							
BTA (1977)	2754.8	2732.6	2711.0	3226.60	18/2/94	2612.80	20/6/94
Singapore							
SES All-S'pore(2/4/75)	(c)	(c)	507.27	641.61	4/1/94	472.80	23/1/95
South Africa							
JSE Gold (28/9/78)	1585.1♥	1507.0	1495.2	2594.00	7/9/94	1495.20	30/1/95
JSE Indl. (28/9/78)	6343.5♥	6220.1	6271.9	6884.49	30/12/94	5449.00	19/1/94
South Korea							
KoreaCompEx(4/1/80)**	(c)	(c)	925.56	1138.75	8/11/94	865.37	2/4/94
Spain							
Madrid SE (30/12/85)	283.98	281.45	281.36	368.31	31/1/94	275.35	11/1/95
Sweden							
AffarsvarldsGen (1/2/37)	1531.40	1513.40	1517.10	1693.90	31/1/94	1334.70	8/7/94
Switzerland							
Swiss Bk Ind (31/12/58)	1219.32	1205.05	1206.05	1423.34	31/1/94	1138.72	27/10/94
SBC General (1/4/87)	903.26	894.88	896.33	1083.29	31/1/94	876.57	27/10/94
Taiwan							
WeightedPr.(30/6/66)**	(c)	(c)	(c)	7191.13	30/9/94	5194.63	19/3/94
Thailand							
Bangkok SET (30/4/75)	1238.53	1217.74	1225.79	1753.73	4/1/94	1191.26	23/1/95
Turkey							
Istanbul Comp.(Jan 1986)	25341.6	25228.7	25030.5	29145.19	2/12/94	12990.70	24/3/94
WORLD							
MS Capital Int (1/1/70)$	608.0*	608.3	608.3	649.99	2/11/94	581.80	4/4/94
CROSS-BORDER							
Eurotrack 100(26/10/90)	1313.47	1297.31	1304.40	1540.19	31/1/94	1286.48	5/10/94
Euro Top-100 (26/6/90)	1168.16	1158.24	1160.90	1311.01	2/2/94	1136.48	5/10/94
JCapeDrgns (31/12/88)	(u)	273.38	273.83	365.19	5/1/94	261.46	23/1/95
Barings Emerg.(7/1/92)	142.18	134.07	137.87	191.79	26/9/94	134.07	31/1/95

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
CAC-40							
Jan	1817.0	1834.0	+39.0	1836.0	1815.0	19,571	24,826
Feb	1823.0	1841.5	+38.5	1844.0	1822.0	412	21,919
DAX							
Mar	2042.0	2059.0	+24.5	2063.5	2039.5	22,036	N/A
Jun	2062.0	2079.0	+25.0	2083.0	2062.0	4,610	N/A
OMX							
Feb	1160.00	1174.75	+14.2	1175.00	1160.00	4,252	18,437
Mar	1178.50	1181.00	+18.0	1181.00	1178.25	90	870
SOFFEX							
Feb	2554.9	2563.6	+23.5	2567.5	2554.0	4,405	16,385
Mar	2567.5	2571.0	+20.5	2567.5	2567.5	8	502

	Open	Latest	Change	High	Low	Est. vol.	Open int.
S&P 500							
Mar	472.20	473.05	+0.85	473.35	472.20	67,685	183,516
Jun	477.00	476.96	+0.75	477.00	476.40	882	14,000
Nikkei 225							
Mar	18750.0	18810.0	+60.0	18930.0	18700.0	38,607	124,457
Jun	18900.0	18880.0	+80.0	18970.0	18770.0	802	7,235

Open interest figures for previous day.

** Sat Jan 28: Taiwan Weighted Price (c) ; Korea Comp Ex 925.58. Base values of all indices are 100 except: Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 25 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. $$ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Feb 1 - 2047.44 +22.62

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

US INDICES

Dow Jones	Jan 31	Jan 30	Jan 27	1994/5 High	1994/5 Low	Since compilation High	Since compilation Low
Industrials	3843.86	3832.08	3857.99	3978.36 (31/1/94)	3593.35 (4/4/94)	3978.36 (31/1/94)	41.22 (2/7/32)
Home Bonds	94.67	94.47	94.67	105.61 (21/1/94)	93.56 (30/12/94)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	1493.46	1503.24	1523.50	1862.29 (2/2/94)	1371.89 (13/12/94)	1862.29 (2/2/94)	12.32 (8/7/32)
Utilities	193.12	192.53	192.20	227.06 (3/1/94)	173.94 (22/11/94)	256.45 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 3872.12 (3881.20) Low 3808.54 (3794.40) (Theoretical♦)
Day's high 3851.80 (3857.82) Low 3826.38 (3817.26) (Actual♦)

Standard and Poors	Jan 31	Jan 30	Jan 27	1994/5 High	1994/5 Low	Since compilation High	Since compilation Low
Composite ‡	470.42	468.51	470.39	482.00 (2/2/94)	438.92 (4/4/94)	482.00 (2/2/94)	4.40 (1/6/32)
Industrials♥	554.47	552.23	554.69	583.18 (28/10/94)	510.05 (21/4/94)	583.18 (28/10/94)	3.62 (21/6/32)
Financial	43.93	43.87	43.93	46.94 (14/6/94)	39.87 (22/11/94)	48.48 (28/8/93)	8.64 (1/10/74)
NYSE Comp.	255.93	254.90	255.89	267.71 (2/2/94)	243.14 (4/4/94)	267.71 (2/2/94)	4.46 (25/4/42)
Amex Mkt Val	435.38	433.54	436.75	487.89 (2/2/94)	420.23 (13/12/94)	487.89 (2/2/94)	29.31 (9/12/72)
NASDAQ Cmp	756.20	751.83	758.91	803.93 (18/3/94)	693.79 (24/6/94)	803.93 (18/3/94)	54.87 (31/10/72)

RATIOS

	Jan 27	Jan 20	Jan 13	Year ago
Dow Jones Ind. Div. Yield	2.79	2.77	2.73	2.57
	Jan 25	Jan 18	Jan 11	Year ago
S & P Ind. Div. yield	2.43	2.40	2.44	2.512
S & P Ind. P/E ratio	18.90	19.06	18.76	26.96

NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Change on day
Telefonos	17,626,100	35⅝	+4⅝
Santa Fe	8,705,400	17¾	-⅝
Grupo Tel	5,720,600	23¾	+4¾
Merck	5,544,100	40⅝	+1
Burl Nthn	5,176,200	47⅝	-1⅞
Ford Motor	4,611,600	25¼	+½
Wal-Mart	4,304,300	22⅜	+⅛
YPF	3,497,100	20⅝	+⅝
Grupo Trb	3,130,100	11½	+2⅝
Gen Motors	3,120,600	38⅜	+1½

TRADING ACTIVITY

● Volume (million)

	Jan 31	Jan 30	Jan 27
New York SE	409.521	318.538	339.497
Amex	14.852	12.171	14.122
NASDAQ	276.185	240.808	290.361
NYSE			
Issues Traded	2,914	2,916	2,915
Rises	1,281	820	1,266
Falls	910	1,387	950
Unchanged	713	709	699
New Highs	47	36	42
New Lows	73	81	46

Montreal stalyn. # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

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TOKYO - MOST ACTIVE STOCKS: Wednesday, February 1, 1995

	Stocks Traded	Closing Prices	Change on day
Penta Ocean	48.3m	946	+13
Aoki Corp	35.3m	695	
Toyo Const	30.1m	795	+20
Fudo Const	22.0m	1310	-70
Toa Corp	18.9m	870	-35
Obayashi Corp	14.6m	785	-20
Sumitomo Const	13.9m	790	-58
Toyo Tire & Rub	13.2m	560	+24
Wakachiku Const	12.3m	874	-7
Kubota Corp	10.8m	696	+10

4 pm close February 1

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1994/95 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
17⅞	11⅞	AAR	0.48	3.5	25	222	13⅞	13¼	13⅞	+⅛
21⅞	12⅝	A L Labs A	0.18	0.9	44	309	19½	19½	19½	
79⅝	57⅝	AMP	1.84	2.6	20	3502	72⅛	71	71⅛	+⅛
72¾	48⅛	AMR			25	5368	57½	55½	55¾	+⅝
59⅛	36⅝	ASA	2.00	4.6	28	783	43¾	43¼	43⅝	+½
35⅝	25⅞	AbbotL	0.76	2.2	18	21079	u35⅞	35	35¼	-⅛
16¼	11⅛	AbitibiPr	0.50	3.7	12	33	13½	13⅜	13½	+⅛
24⅞	17¾	ABM Ind	0.60	2.5	14	15	23⅝	23⅝	23⅝	-⅛
18	11⅛	Acptonstin			12	51	16½	16	16	-½
31	20¾	ACE Ltd	0.44	1.8	8	169	24¾	24½	24¾	+⅛
12½	9	ACM Grt In x	1.09	11.6	8	376	9⅜	9¼	9¼	-⅛
10⅛	6⅞	ACM GvOpp x	0.80	11.0		41	7¼	7⅛	7¼	
10⅝	8¼	ACM Grt Sp x	0.96	13.2		93	7¼	7⅛	7¼	
12	7⅝	ACM Grt Sn x	1.09	13.3		159	8⅜	8¼	8¼	
11¾	7⅜	ACM Man x	1.08	13.9		927	7⅞	7⅝	7¾	+⅛
9¼	7¼	ACM MgMgd x	0.72	9.8		62	7⅜	7⅜	7⅜	
16¼	8¼	AcmeClv	0.48	3.1	9	162	15⅝	15⅜	15⅜	-¼
19⅞	9½	Acme Elect			18	351	18¼	17⅝	17⅝	-⅝
33½	23	Acordia	0.60	1.9	16	4	31¾	31¾	31¾	+⅛
13¾	5¾	Actava	0.36	4.0	2	216	9¼	9	9	-¼
18⅞	11¼	Acuson			26	340	16⅛	15⅞	15⅞	-⅛
18⅞	15½	Adams Expr	0.36	2.3	0	69	16	15⅞	15⅞	-⅛
64½	46½	Ad Micro	3.00	5.0		269	60¼	60	60¼	+1
32¼	16¾	AdvMic	3.00	9.9	8	6119	30⅞	29⅝	30¼	+⅞
6⅞	5	Advest Grp	0.16	2.9	27	34	5⅝	5½	5½	+⅛
20	15	Advo Inc	0.10	0.6	14	89	17¾	17⅜	17⅜	-¼
66⅛	49⅞	Aegon ADR	1.47	2.3	12	6	64⅞	64	64⅞	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

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NYSE CO

AMEX COM

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Financial Times. Wor

4 pm close February 1

NYSE COMPOSITE PRICES

1994/95 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
Continued from previous page										
35⅛	30¼	SFePPipa	2.80	8.2	8	38	34¼	34⅛	34⅛	
26¾	12⅛	SanFeP	0.10	0.5	17	51526	18⅜	17⅞	18⅜	+½
26⅝	19⅞	SaraLee	0.68	2.6	62	8475	u26⅝	25¾	25⅞	-½
50⅛	41	Scana Corp	2.62	6.4	12	112	44⅜	44⅛	44¼	+⅛
20½	12½	Scecrp	1.00	6.1	10	10294	16¾	16¼	16½	+⅛
13⅞	8¾	SchawkA	0.26	2.6	35	17	10	9⅞	9⅞	-⅛
45½	31¾	SchererRP			28	260	45¼	44¾	44⅞	+¼
78⅞	54½	SchrPl	2.04	2.6	16	4091	78⅝	77¼	77½	-1
63	50	Sclmb	1.20	2.3	23	9989	53¼	52½	52½	-¾
40¼	23¾	Schwab(C)	0.36	0.9	17	2712	u40¾	40⅛	40⅝	+¾
10¾	6⅛	Schweitzer			7	14	8½	8⅜	8⅜	
22¾	12½	SciAtl	0.06	0.3	25	2487	20⅛	19½	19½	-⅝
18¾	13	Scotsman	0.10	0.6	12	58	17⅜	17¼	17¼	-⅛
74½	37¼	ScottP	0.80	1.1	22	8188	72⅛	69¾	70⅝	+1¼
31	23	Scripps	0.44	1.6	17	180	28	27½	28	+½
28⅝	15⅞	ScudderNeF x	0.02	0.1		146	17½	17	17	+¼
12⅝	8¾	ScudderNEuF	0.16	1.8		85	9	8⅞	9	
18¾	12	SeaCnB	0.70	5.0	8	30	14	14	14	
16½	14¼	SeaC1.4625	1.46	9.5		2	15⅜	15⅜	15⅜	
28	22⅞	S'gate			7	2454	25⅞	25⅝	25¾	+⅛

NASDAQ NATIONAL MARKET

4 pm close February 1

AMEX COMPOSITE PRICES

4 pm close February 1

AMERICA

Mexico retreats as profits are taken

Mexico

Mexico was unable to consolidate the sharp gains seen on Tuesday following news that a rescue package had been agreed. After that day's 10 per cent rise, the largest gain in a single day for seven years, profit-takers came in yesterday morning, driving the IPC index down to a mid-morning level of 2,023.33, off 70.65 or 3.4 per cent.

Volume was 46.47m shares valued at 520.04m pesos. In currency markets the peso closed stronger against the dollar in same-day contracts.

Telmex L shares were down 5.6 per cent and its A shares had shed 4.8 per cent.

Of 70 issues changing hands, declining stocks outnumbered gainers by 31 to 25 with 14 unchanged.

Brazil

São Paulo, by contrast, built on Tuesday's gains with the Bovespa index up 1.8 per cent in light midday trade in reaction to the Mexican news.

The index was ahead 711 at 39,561.

Analysts said that investors were also keeping a close eye on the outcome of the US FOMC meeting. An expected rise in US rates could renew pressure on Latin American markets as US investors took advantage of fixed income investments.

Among the main movers Telebras was up 3.1 per cent to R$33.50, and Petrobras up 4 per cent at R95.50.

● In Buenos Aires the Merval index gained 1.2 per cent in early trading. By midday it was up 5.34 at 440.34.

President Carlos Menem welcomed the US rescue package for Mexico but warned it would not "work magic" for Argentina, which has been severely affected by the turbulence.

Among blue chips the only underperformer was Banco Frances, which fell 1.1 per cent after reporting sharply lower second half losses for 1994.

Wall Street

US stocks pushed down from the session's highs yesterday afternoon after the Federal Reserve raised the target interest rate by 50 basis points to 6 per cent, *writes Lisa Bransten in New York.*

At 2.30pm the Dow Jones Industrial Average was up 7.06 at 3,850.92 and the more broadly based Standard & Poor's 500 ahead 0.66 at 471.08. The American Stock Exchange composite gained 2.08 at 437.44 and the Nasdaq composite rose 6.36 to 759.93. Trading volume on the New York Stock Exchange was active at 301m shares.

Earlier in the day the Dow was up more than 24 points on mixed economic news. Figures from the National Association of Purchasing Management showed economic activity to be stronger than many economists had predicted. While the median forecast had the composite index down slightly in January, it actually rose to 57.9 per cent, from 57.5 per cent in December.

Part of the increase was attributed to a gain in the employment component of the index, which jumped to 52.1 per cent in January from 47.8 per cent in December. That gain was partially offset by a decrease in the closely watched prices-paid sub-index, which fell to 87.1 per cent from 87.5 per cent.

The Commerce Department's index of leading economic indicators posted only a 0.1 per cent increase in December – just what a consensus of economists had forecast – leading many economists to suggest that the economy was slowing.

But Mr Joseph Liro of S.G. Warburg Research said the figures should be interpreted with caution.

"The LEI continues to point to a further economic expansion but at a somewhat slower pace than registered in 1994," he said.

Generally, interest rate increases are bad for the stock market because they slow consumer spending and make corporate borrowing expensive, but reaction yesterday was muted by the fact that analysts had been predicting a 50 basis-point increase for some time and most believed it was already accounted for in the market.

Shares in the big three US car makers were mixed yesterday. Ford shares lost $¼ at $25 although the auto company reported good fourth quarter results and predicted even stronger earnings for the first quarter of the year. Chrysler moved ahead $⅝ to $45⅝ and General Motors climbed $1¼ to $39⅞.

Ben & Jerry's Homemade lost $⅝ at $12⅝, although the ice cream company announced that it would name Mr Robert Holland Jr as its new president and chief operating officer after a seven-month search.

Meanwhile, Airtouch Communications advanced in spite of lower than expected results because the cellular phone company explained that earnings were down due to the cost of financing rapid growth. Shares in the company, which was spun off from Pacific Telesis last year, were up $⅜ at $28¾.

Canada

Toronto was lifted by strong corporate earnings in gold mining, the sector index climbing by 137.50, or 1.6 per cent to 8,594.76 at midday as the TSE 300 composite index rose 19.07 to 4,036.55.

Volume was 20.83m shares, turnover C$319m, and advances led declines by 218 to 180 with 239 unchanged.

EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES

Market	No. of stocks	Dollar terms: Jan 27 1995	% Change over week	% Change on Dec '94	Local currency terms: Jan 27 1995	% Change over week	% Change on Dec '94
Latin America	(258)	495.01	-2.2	-14.7			
Argentina	(30)	697.01	-1.6	-5.1	427,699.63	-1.6	-5.1
Brazil	(72)	342.95	-1.7	-10.8	1,083,724,206	-2.2	-11.0
Chile	(36)	755.75	+0.2	-3.6	1,235.49	+0.1	-2.0
Colombia[1]	(16)	898.66	+1.8	+10.7	1,365.86	-1.6	+14.3
Mexico	(72)	449.19	-4.0	-26.1	1,089.98	-5.1	-15.6
Peru[2]	(20)	148.87	-1.4	-16.5	196.44	-1.1	-16.6
Venezuela[3]	(12)	469.43	+6.0	-5.2	1,833.17	+6.0	-5.2
Asia	(659)	219.42	-2.3	-12.0			
China[4]	(20)	64.80	-2.0	-14.6	69.10	-2.0	-14.6
South Korea[5]	(159)	121.21	-4.6	-11.4	125.76	-5.0	-11.3
Philippines	(25)	248.91	-2.8	-16.5	295.92	-3.0	-15.8
Taiwan, China[6]	(93)	145.00	-1.0	-11.8	143.12	-0.9	-11.8
India[7]	(103)	108.21	-4.2	-12.4	120.61	-4.2	-12.4
Indonesia[8]	(42)	92.19	-2.6	-7.6	111.14	-2.4	-6.7
Malaysia	(114)	235.78	-1.1	-12.3	222.53	-0.9	-12.2
Pakistan[9]	(36)	309.38	-10.8	-15.5	433.14	-10.8	-15.3
Sri Lanka[10]	(19)	165.84	-1.2	-3.6	179.70	-1.1	-3.1
Thailand	(68)	349.43	-2.0	-8.9	347.69	-2.1	-9.0
Euro/Mid East	(147)	108.98	-2.1	-8.0			
Greece	(40)	216.68	-1.4	-4.0	346.25	-0.9	-5.8
Hungary[11]	(5)	125.79	-6.6	-17.1	169.99	-6.2	-17.7
Jordan	(8)	153.77	+1.3	+2.5	226.05	+1.1	+1.7
Poland[12]	(16)	402.15	-12.1	-14.3	610.25	-12.1	-15.3
Portugal	(29)	112.86	-3.2	-6.8	121.26	-4.1	-8.4
Turkey[13]	(44)	109.26	-0.6	-10.3	2,077.45	-1.1	-6.1
Zimbabwe[14]	(5)	262.53	-1.8	+7.3	324.21	-1.2	+7.6
Composite	(1064)	267.58	-2.2	-13.0			

Indices are calculated at end-week, and weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Aug 4 1989; (14)June 2 1993.

Contrasting opinions on emerging markets came from two of the world's leading investment fund managers this week, *writes John Pitt*. However, Mr Marc Faber and Mr Mark Mobius both agreed that, in the short term, there was bound to be extreme volatility within this investment group.

Speaking separately at an emerging markets conference in London, they diverged on their longer term perspectives. Mr Faber suggested that the bull market in emerging markets could well be over. In the future, he said, investors would have to be much more sector selective and noted, in addition, that there could well be a shift in future financial capital cities. For instance, he highlighted Manchuria as a developing region, and thought that Shanghai could well be, barring any political problems, the most important financial centre in Asia, outside Tokyo and Osaka, within the next five to 10 years.

Mr Mobius was, as usual, far more bullish. He urged investors to take a long term perspective, and reiterated his philosophy of investment: "Have some assets in cash, and be patient and wait until markets recover. By focusing on today [the crisis in Mexico, for instance] one can be blinded and get caught up in the emotions of the minute."

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY JANUARY 31 1995: US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY JANUARY 30 1995: US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX: 52 week High	52 week Low	Year ago (approx)
Australia (68)	161.21	-1.9	150.65	100.84	127.00	141.61	-1.6	4.07	164.28	153.10	102.37	128.96	143.90	188.15	161.21	185.21
Austria (18)	176.36	0.7	164.70	110.31	138.93	138.27	0.5	1.17	175.13	163.21	109.13	137.47	137.56	196.89	167.46	192.53
Belgium (35)	167.40	-0.6	156.33	104.70	131.87	129.03	-0.2	4.28	168.36	156.90	104.92	132.16	129.23	177.04	161.53	168.07
Brazil (28)	147.46	7.6	137.71	92.23	116.17	228.41	7.2	1.13	137.05	127.73	85.41	107.58	213.17	-	-	-
Canada (103)	122.58	0.6	114.47	76.67	96.57	125.45	0.4	2.76	121.81	113.52	75.91	95.62	125.01	143.28	120.54	142.47
Denmark (33)	255.02	0.4	238.15	159.51	200.90	207.58	0.7	1.43	254.06	236.77	158.32	199.43	206.10	275.79	236.61	269.93
Finland (24)	183.20	-1.5	171.09	114.59	144.32	182.38	-1.0	0.76	186.02	173.36	115.92	146.02	184.29	201.41	133.68	150.59
France (102)	159.06	-1.1	148.54	99.49	125.30	131.20	-0.8	3.27	160.81	149.87	100.21	126.23	132.21	185.37	157.79	182.95
Germany (58)	139.77	-1.0	130.53	87.43	110.11	110.11	-0.7	1.89	141.21	131.61	88.00	110.85	110.85	150.40	128.37	134.73
Hong Kong (56)	293.01	-0.1	273.64	183.26	230.84	291.06	0.0	4.30	293.17	273.22	182.70	230.14	291.06	493.01	277.40	469.84
Ireland (16)	207.99	-0.8	194.24	130.09	163.85	187.09	-0.5	3.40	209.78	195.49	130.71	164.65	188.05	216.60	177.56	206.06
Italy (58)	80.38	0.6	75.07	50.28	63.32	96.14	0.9	1.62	79.78	74.35	49.72	62.63	95.24	97.78	67.25	75.46
Japan (484)	148.16	-0.5	138.36	92.67	116.72	92.67	-0.1	0.82	148.89	138.76	92.78	116.88	92.78	170.10	138.46	150.27
Malaysia (97)	418.90	0.0	391.21	262.01	330.01	412.61	0.0	2.04	418.95	390.44	261.08	328.87	412.61	594.76	398.16	495.36
Mexico (18)	993.60	3.0	927.90	621.47	782.74	6898.34	9.6	1.48	964.79	899.13	601.22	757.33	6292.16	2647.08	964.79	2526.07
Netherland (19)	219.21	-1.2	204.72	137.11	172.69	170.06	-0.8	3.40	221.96	206.86	138.32	174.24	171.49	223.30	191.28	206.92
New Zealand (14)	72.39	-1.5	67.60	45.28	57.03	60.11	-1.6	4.87	73.47	68.47	45.79	57.68	61.11	77.59	62.05	75.66
Norway (23)	216.03	1.8	201.74	135.12	170.18	194.88	2.2	1.77	212.25	197.81	132.27	166.61	190.71	216.03	177.53	201.47
Singapore (44)	340.31	-0.1	317.82	212.88	268.10	227.95	0.0	1.88	340.76	317.57	212.35	267.49	227.95	401.38	294.68	352.87
South Africa (59)	281.06	-1.3	262.47	175.79	221.41	252.48	-0.6	2.64	284.77	265.39	177.48	223.54	254.57	342.00	205.66	250.34
Spain (36)	129.88	-0.4	121.29	81.24	102.32	128.73	0.0	4.38	130.36	121.49	81.24	102.33	129.71	155.79	124.87	155.79
Sweden (46)	235.95	-0.6	220.35	147.58	185.88	260.62	-0.3	1.50	237.43	221.27	147.96	186.38	261.30	242.61	196.70	229.27
Switzerland (47)	162.89	-0.5	152.12	101.89	128.33	128.86	-0.1	1.89	163.64	152.51	101.98	128.46	129.05	176.56	149.91	174.63
Thailand (46)	136.60	-0.4	127.57	85.44	107.62	132.81	-0.4	3.04	137.19	127.85	85.49	107.69	133.30	-	-	-
United Kingdom (205)	192.73	-0.3	179.98	120.55	151.83	179.98	-0.1	4.29	193.40	180.24	120.52	151.82	180.24	214.98	181.11	213.59
USA (513)	192.62	0.4	180.07	120.60	151.90	192.62	0.4	2.90	191.96	178.91	119.63	150.70	191.96	198.04	178.95	195.94
Americas (662)	177.20	0.9	165.48	110.83	139.59	148.80	0.6	2.86	176.22	164.23	109.81	138.33	147.90	-	-	-
Europe (722)	167.65	-0.6	156.56	104.86	132.07	147.12	-0.3	3.16	168.58	157.11	105.06	132.33	147.51	176.58	160.59	177.37
Nordic (126)	227.67	-0.3	212.62	142.40	179.38	213.09	0.0	1.40	228.48	212.94	142.38	179.35	213.03	233.91	197.70	218.54
Pacific Basin (809)	154.27	-0.5	144.07	96.49	121.53	100.72	-0.2	1.21	155.07	144.52	96.63	121.73	100.91	176.86	145.93	162.64
Euro-Pacific (1531)	159.75	-0.5	149.18	99.92	125.85	118.84	-0.2	2.06	160.60	149.67	100.08	126.07	119.10	175.14	154.73	168.62
North America (616)	188.47	0.5	176.01	117.88	148.47	188.25	0.4	2.90	187.63	174.86	116.93	147.29	187.44	192.73	175.67	192.52
Europe Ex. UK (517)	150.45	-0.7	140.50	94.10	118.52	127.53	-0.3	2.52	151.47	141.16	94.39	118.90	127.96	158.12	144.12	154.65
Pacific Ex. Japan (325)	216.81	-0.7	202.48	135.61	170.80	191.05	-0.6	3.50	218.27	203.42	136.02	171.34	192.12	261.75	211.19	261.43
World Ex. US (1739)	159.93	-0.4	149.36	100.03	125.99	121.88	-0.1	2.06	160.64	149.71	100.11	126.10	122.01	178.95	155.42	170.36
World Ex. UK (2047)	167.46	-0.1	156.39	104.74	131.92	139.48	0.1	2.17	167.63	156.22	104.46	131.59	139.32	178.59	163.46	174.38
World Ex. Japan (1768)	182.83	0.0	170.83	114.42	144.11	173.47	0.2	3.01	182.89	170.44	113.97	143.56	173.16	195.20	176.34	194.15
The World Index (2252)	169.69	-0.1	158.47	106.13	133.68	143.16	0.1	2.36	169.90	158.34	105.88	133.37	143.03	180.60	165.92	177.60

Latest prices were unavailable for this edition. Markets closed 31/1/95: Hong Kong, Malaysia and Singapore.

EUROPE

Bourses respond to good corporate news

Tuesday's redesign of the US aid package for Mexico created early buoyancy in European equities, *writes Our Markets Staff*, and in these conditions bourses responded enthusiastically to good company news.

However, bad news was punished, reinforcing the impression that fundamentals have been more influential this year than they were in 1994, when interest rate stories were often the only ones that mattered.

FRANKFURT combined mostly positive corporate news with the Mexico package as the Dax index rose 27.16 to 2,048.43 in floor trading, and held its ground to close at 2,047.14 in the post bourse.

Turnover rose from DM5.3bn to DM7bn. The stock of the day, not yet a Dax constituent, was SAP, which has more than trebled its share price in the past year; the computer software company reported a 92 per cent gain in 1994 net profits late on Tuesday and rose another DM71, or 6.5 per cent to DM1,163. Mr Eckhard Frahm of Merck Finck in Düsseldorf said that most analysts had been going for a rise of 50, or 60 per cent, and noted that there was talk of a US listing.

However, the non-Dax list had its sour side with Asko, the retailer, reporting lower profits and dropping DM40, or 6 per cent to DM630 – less than half its 1994 high. Within the Dax, Volkswagen eased 30 pfg to DM389 in continued reaction to a three-day production cut for the new Golf model.

The big Dax winner was Conti, up DM9 or 4.1 per cent to DM227 on the joint production venture with Michelin which, said the French company, should save both participants FFr300m a year. Degussa's 55 per cent rise in first quarter profits had been discounted in share price gains last Friday, and in Tuesday's post bourse; the pharmaceuticals, chemicals and gold refining group saw an Ibis close DM1.60 higher at DM453.

PARIS regained the 1,800 level, the CAC-40 index putting on 29.88 to 1,827.78 in turnover of FFr4bn.

Corporate news featured strongly. Axa was among the best performers, rising FFr14.60 or 6.8 per cent to FFr223.80 after the insurer announced that it was to take a 51 per cent stake in National Mutual, Australia's second largest life company, in a deal worth $840m. Asia-Pacific was Axa's latest target for expansion, following a series of acquisitions in Europe and the US during the early part of the decade.

Michelin, up FFr2.50 at FFr200.50, remained in the spotlight as it revealed a joint venture with Continental of Germany which would include the manufacture of low cost tyres. But Peugeot remained depressed, going against the trend as worries about the health of the European car market weighed on sentiment. The stock lost FFr2 to FFr687.

Crédit Lyonnais was another faller, the CI's off FFr5.50 at FFr338.50 as the troubled bank announced the disposal of MGM cinemas in a number of European countries.

Legrand added FFr100 to FFr6,340 after reporting a 4 per cent rise in 1994 sales, while Paribas notched up FFr6.10 to FFr330.50 ahead of a post-bourse report that it expected a rise in 1995 profits.

MILAN saw the government win a vote of confidence, its foreign debt was downgraded by Standard & Poor's, the ratings agency, and Credito Italiano secured victory in its long bid battle for control of Credito Romagnolo as the Comit index rose 11.71 to 672.28.

Analysts commented that the S & P downgrading had little effect on sentiment, while investors were relieved that the government had finally secured its mandate.

Fiat remained strong and heavily traded ahead of a statement due out today, the shares firming L126 to L6,691.

The telecoms sector accelerated as investors hoped that the new government would push through the privatisation of Stet, up L83 or 1.6 per cent at L5,102. Telecom Italia gained L54 or 1.2 per cent to L4,478.

Among the banks Rolo lost 5 per cent on the bid battle news, down L799 at L15,147, and Italiano added L27 to L2,029. Ambroveneto starred in this sector, gaining L258, or 6 per cent to L4,628, with analysts suggesting that this was due to a perception that the stock had under-performed following the failed bid by BCI last year.

ZURICH took its lead from other bourses as the SMI index rose 23.9 to 2,560.8. Drug industry takeover rumours were less effective than hard news lower down the size scale: Ascom, the telecoms group, rose SFr55 to SFr1,325 as it said that it was cutting about 220 jobs at its Timeplex operating division; and Hilti, the Liechtenstein-based construction equipment producer, rose SFr30 to SFr945 on its sale of 60 per cent of Schmidlin, the curtain wall manufacturer.

AMSTERDAM's AEX index rose 2.25 to 410.36 with KLM up Fl 1.70, or 3.7 per cent to FL 47.40 ahead of today's third quarter results. Once again, a clutch of construction and dredging stocks rose on speculation that they would benefit from post-flood rebuilding work: Boskalis rose Fl 1.60 to Fl 33.50, Ballast Nedam Fl 1.50 to Fl 74 and Volker Stevin, the engineer, by Fl 3.50 to Fl 97.

FT-SE Actuaries Share Indices

Feb 1							THE EUROPEAN SERIES	
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1307.79	1308.14	1308.61	1310.97	1312.68	1313.82	1313.13	1313.47
FT-SE Eurotrack 200	1366.88	1368.02	1369.50	1371.99	1372.80	1373.82	1372.26	1373.89

	Jan 31	Jan 30	Jan 27	Jan 26	Jan 25
FT-SE Eurotrack 100	1297.31	1304.40	1307.52	1308.10	1294.51
FT-SE Eurotrack 200	1358.78	1363.04	1370.10	1365.64	1355.17

Base 1000 (29/10/90): High/day: 100 - 1314.28; 200 - 1375.46 Low/day: 100 - 1307.47 200 - 1366.69 † Partial

Written and edited by William Cochrane and John Pitt

ASIA PACIFIC

Dredging companies sustain Tokyo activity

Tokyo

Buying of dredging companies helped to sustain trade, and the Nikkei 225 average closed higher after moving in a narrow range, *writes Emiko Terazono in Tokyo.*

The index was ahead 89.65 at 18,739.47 after a low of 18,609.90 and high of 18,868.93. Share prices advanced in the morning on purchasing of construction related stocks and arbitrage buying. However, profit-taking by companies and individuals later eroded some of the gains.

Volume came to 731m shares, against 838m. The Topix index of all first section stocks put on 0.30 at 1,464.14 and the Nikkei 300 edged up 0.04 to 268.85. Gainers led losers by 555 to 487, with 148 issues unchanged. In London the ISE/Nikkei 50 index was up 0.61 at 1,196.70.

Arbitrage buying helped high-technology issues, which saw profit-taking by foreign investors on Tuesday. But expectations that export-orientated companies would be hit by a slowdown in the US economy prompted profit-taking later in the sector.

Dredging shares fluctuated heavily on speculative activity: Penta-Ocean Construction, the day's most active issue, rose Y13 to Y946. The Tokyo stock exchange temporarily suspended trading in the stock in the afternoon following its climb above Y1,000 for the first time since June 1992. Traders said the bulk of activity came from individual investors.

Construction stocks headed the list of most actively traded issues. Aoki, however, ended unchanged at Y695, while Toyo Construction gained Y20 at Y795. General contractors retreated on profit-taking, with Obayashi slipping Y20 to Y785.

Some truck makers advanced on hopes of higher demand linked to the rebuilding of Kobe, the city damaged by last month's earthquake. Tokyu Car added Y24 at Y609 and Nippon Sharyo moved up Y20 to Y1,000.

Banks, which had posted strong gains earlier in the week on reports of Sumitomo Bank's bad loan write-off, lost ground on profit-taking. Industrial Bank of Japan fell Y40 to Y2,630 and Dai-Ichi Kangyo Bank Y50 to Y1,810.

Electronic stocks rebounded. Hitachi gained Y4 at Y858 and Fujitsu Y22 at Y879. Consumer electronic maker Sony advanced Y110 to Y4,700 and Matsushita Electric Industrial rose Y50 to Y1,430.

In Osaka, the OSE average put on 54.83 at 20,610.70 in volume of 123.9m shares.

Roundup

The region offered varying responses to US President Bill Clinton's new initiative on aid for Mexico. Hong Kong, Seoul, Taiwan, Singapore and Kuala Lumpur remained closed for the lunar new year holidays.

MANILA welcomed the Clinton package with a 2.3 per cent gain, the composite index climbing 56.76 to 2,476.88. Philippine Long Distance Telephone rose 50 pesos or 3.9 per cent to 1,325 pesos, while Petron appreciated 1 peso or 5.7 per cent to 18.50 pesos in the heaviest volume of the day.

Turnover soared from 590m pesos to 2.49bn pesos. B shares in another blue chip, Manila Electric (Meralco), rallied 10 pesos to 278 pesos after being badly hit by foreign selling over the previous week.

BANGKOK rose on the prospect of a US interest rate increase at yesterday's FOMC meeting in Washington. The finance sector gained 2.4 per cent, energy stocks 5.1 per cent and banks 1.6 per cent as the SET index put on 20.79 or 1.7 per cent at 1,238.53 in 50.1m shares traded valued at Bt3.3bn, up from Bt1.7bn.

KARACHI advanced 1.3 per cent on short-covering, the KSE 100 index rising 23.82 to 1,810.75. Dealers also saw some buying in telecoms and synthetic fibre shares.

BOMBAY reversed early gains on rumours that exchange officials had ordered some traders with large outstanding positions to reduce them. The BSE 30-share index finished 48.88 or 1.35 per cent off at 3,569.66.

COLOMBO's all-share index dropped 14.47 or 1.5 per cent to 945.51 as turnover nearly doubled, from Rs17.74m to Rs33.3m. Dealers said continued retail selling more than outweighed some selective institutional buying interest.

SYDNEY ended broadly mixed, banks surging on the back of recent positive reports by the Standard & Poor's, Moody's, and IBCA rating agencies, while gold stocks continued their downward slide after a US$2 fall in the bullion price. The All Ordinaries index closed a mere 2.5 higher at 1,833.1. The banks sub-index added 1.3 per cent and golds lost 2.3 per cent.

SOUTH AFRICA

Shares saw substantial gains after bullion climbed and bourses rallied on the revamped aid package for Mexico. The overall index advanced 95.3 to 5,149.4, industrials 123.4 to 6,343.5 and the golds index 78.1 to 1,585.1.